Singapore: 2026 participating fund health check

Introduction

In this e-Alert we review the position of participating (par) funds in Singapore at the end of 2025, based on public information published in 2026, and compare this to the position at the end of 2024. For information on solvency and capital we have used data from the 31 December 2025 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.

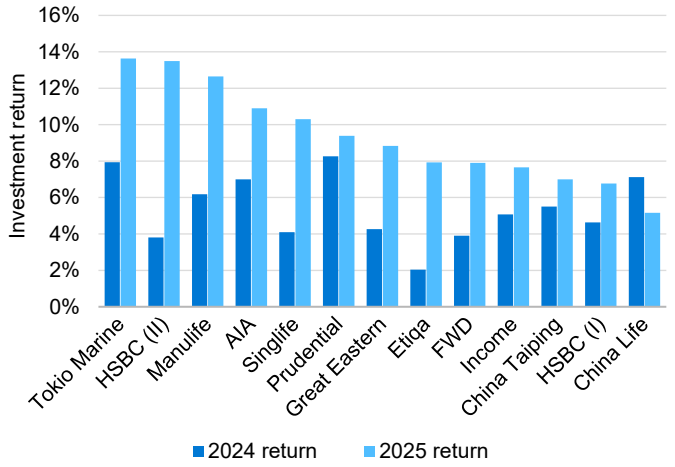
Information on investment returns and investment mix was obtained from insurers' par fund updates, published on their websites. Etiqa's par fund update has not yet been published, so we have instead obtained the same information for its par fund from the latest product summary for its Enrich Income product. 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.

Investments

Figure 1 shows the annual investment return experience for each par fund for 2024 and 2025. The simple average of returns across all companies in 2025 was a strong 9.35%, coming after averages of 6.16% in 2023 and 5.37% in 2024, meaning that returns in each of the last three years have been well above the current illustration cap of 4.25% for SGD-denominated par business.

As in previous years, we observe quite a variation in the returns across different companies, with returns ranging from 13.63% at the upper end (Tokio Marine) down to 5.28% at the lower end (China Life), but all were well above the 4.25% illustration cap rate.

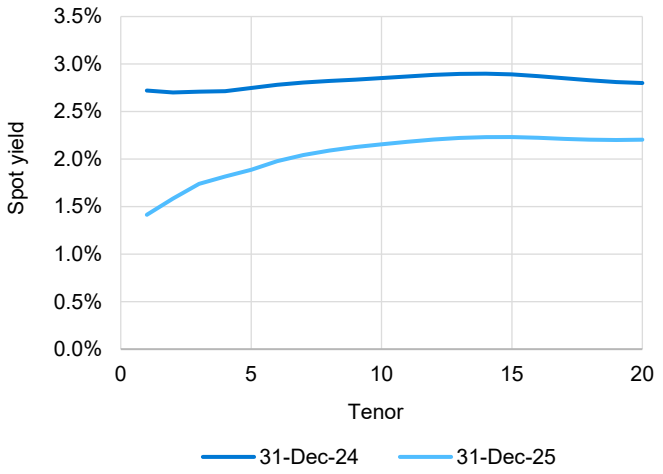
FIGURE 1: PAR FUND INVESTMENT RETURNS FOR 2024 AND 2025



To try and understand the observed investment return experience we can look at movements in interest rates and equity markets. Singapore par funds typically invest in a mix of assets but will include a significant proportion allocated to fixed interest assets to help manage the duration risk of the liabilities. Whilst these assets can bring in steady returns on a book-value basis, the investment returns are disclosed on a market value basis which can be heavily impacted by changes in yield curves, with the effect being greater for longer duration assets.

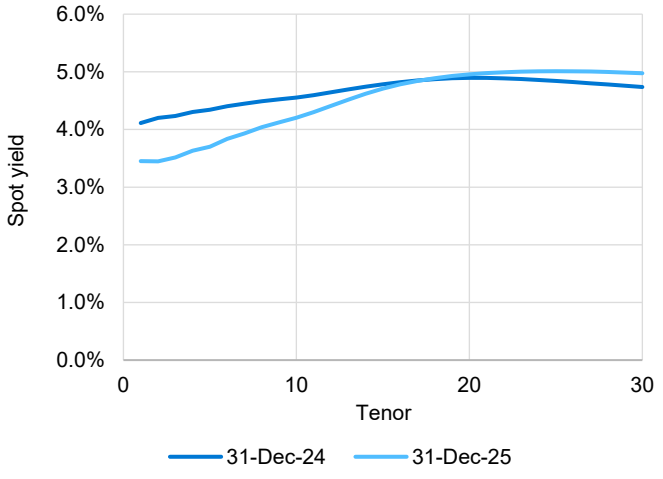
Figure 2 shows the fall in the Singapore Government Security (SGS) yield curve between 31 December 2024 and 31 December 2025. We can see that there was a material drop in yields of 0.60% at the 20-year tenor and 0.70% at the 10-year tenor, and even greater falls at shorter tenors. These falls in yields would have caused significant increases to market values of SGD fixed interest assets. The longer the duration of the assets, the larger the increase in market values would be, but typically we would expect those insurers with the longest duration assets to also have longer duration liabilities, which will also have increased from the fall in interest rates.

FIGURE 2: SGS YIELD CURVE AT 31-DEC-24 AND 31-DEC-25



However, the limited availability of SGD corporate bonds, and the attraction of the higher yields available on USD-denominated bonds, has meant that many insurers have used USD fixed interest assets, at least partially, in their par fund investment strategies. Whilst the SGS yield curve dropped over 2025, Figure 3 shows that the US Treasury yield curve experienced more of a twist, falling at the short end and rising at longer tenors beyond 15 years. The effect on market values of USD bonds would depend on the duration of the portfolios, but we would certainly expect USD fixed interest portfolios to have not risen in value by as much as SGD ones of similar duration.

FIGURE 3: US TREASURY YIELD CURVE AT 31-DEC-24 AND 31-DEC-25



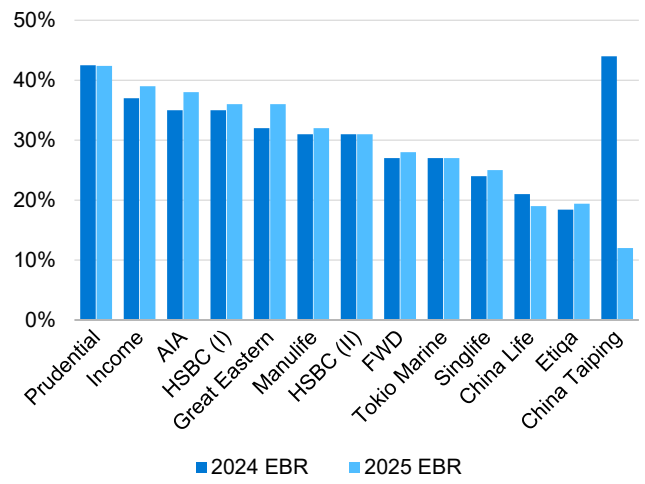
Part of the variation in returns between insurers could be driven by the relative investment in SGD and USD fixed interest assets, with those that maintain a higher SGD exposure benefiting more from the larger fall in SGD yields, but we also need to consider the effect of currency (FX) hedging. Insurers typically employ FX hedges to minimise mismatch risk between the fixed interest assets and guaranteed liabilities that they are intended to match, but different approaches can be adopted. Some insurers use short-term (typically three-month) forward contracts to hedge their FX exposure, which they will roll over at the end of each contract into a new forward contract. Others may have utilised longer-term cross-currency swaps that lock into rates for longer periods.

When the yield curves of the underlying currencies of a swap move, the market value of the swap will also move. As a result, the value of a combined USD bond and matching USD/SGD cross-currency swap would effectively change in line with changes in the SGD yield curve, rather than the USD yield curve. Three-month forward contracts are much less sensitive to changes in yield curves, so the value of a USD bond hedged by a three-month USD/SGD forward would be affected primarily by movements in the USD yield curve only. So, funds that either have a higher allocation to SGD bonds, or to USD bonds that are hedged with FX swaps, will likely have had the most positive impact to their investment returns from the change in yields, as would funds with longer asset durations.

In addition to fixed interest assets, par funds will typically invest a significant portion of the fund in equities and other growth assets. The year 2025 was another strong year for equity returns, with total returns of 28.6% for the Straits Times Index, 17.9% for the S&P 500, and 22.6% for the FTSE Global All Cap, following on from 23.5%, 25.0% and 16.8% respectively in 2024. Strong equity market returns will have boosted par funds' investment returns in 2025, with those funds with the biggest allocation to equities benefiting the most.

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 2024 and 31 December 2025. Given the very strong equity market returns in 2025, we might expect there to be some correlation with the funds with the highest EBRs experiencing the highest investment returns, but this is not what we see. In fact, there is actually very little correlation between EBRs and investment returns. This could indicate that the change in the SGD yield curve and its effect on fixed interest prices, including the type of any FX hedging of USD assets employed, has had more influence on the investment returns of the different funds. As always, 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.

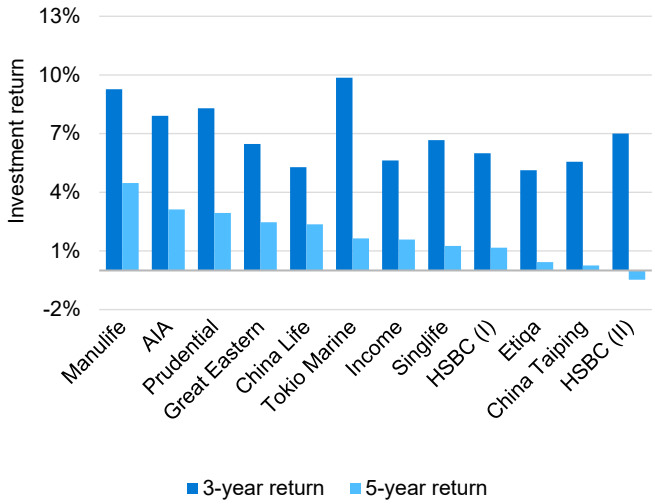
FIGURE 4: PAR FUND EBRS AT 31 DECEMBER 2024 AND 2025



Other than China Taiping, there has been little movement in EBRs between 31 December 2024 and 31 December 2025, perhaps indicating that companies' relative outlooks between equities and bonds remained relatively unchanged. The significant fall in the EBR for China Taiping is believed to be the result of a change in definitions. In its 2024 par fund update, China Taiping gave a figure of 44% invested in 'risky assets,' whereas in its 2025 par fund update it shows an allocation of 12% in equities. Risky assets were described in its notes as including 'equities, collective investment schemes (equity, bond, money market), equity futures and alternatives investments,' so we suspect a large proportion of this was invested in bond collective investment schemes, which are now included in 'fixed income' (69%, up from 53%), and alternative assets, which are now included in 'cash and other assets' (19%, up from 3%).

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. 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 2025, 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 2025[1]



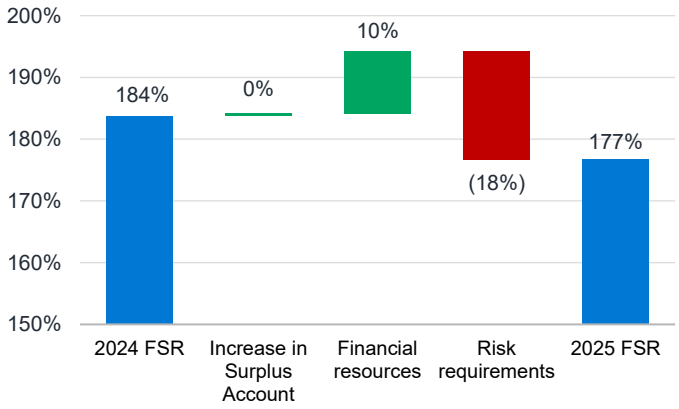
We can see that returns over the last three periods have been very strong, ranging from 5.13% p.a. for Etiqa to 9.86% for Tokio Marine. These returns are more than the current illustration cap of 4.25% for SGD-denominated par business, suggesting healthy investment experience to support illustrated bonus rates. However, when we look at the five-year period, returns are much lower, reflecting the very poor investment returns that were experienced in 2022 and to a lesser extent in 2021. Over the five-year period, only Manulife (4.47% p.a.) has had returns that exceed the 4.25% illustration cap, with all other insurers' returns being less than 3.20% p.a. Further strong investment returns will be required to bring the long-term average returns above those used in point-of-sale policy illustrations and to enable companies to be able to declare the bonuses shown in those illustrations.

Solvency and capital

Figure 6 shows an aggregate-level picture of the change in par fund solvency over 2025, summing the financial resources and risk requirements across all the par funds in the Singapore market. It shows that the aggregate-level FSR decreased by 7 percentage points over the year, from 184% to 177%, and suggests this has been caused by the increase in risk requirements exceeding the increase in financial resources. Whilst this is true, there is more nuance to the change, and we should look at the relative movements in these figures to better understand what is happening.

[1] FWD Singapore launched its par fund in 2023, so five-year returns are not available. For this reason we have excluded it from this chart.

FIGURE 6: CHANGE IN INDUSTRY-LEVEL PAR FUND FSR OVER 2025



The total risk requirements as a proportion of the total size of the par funds (as measured by investment assets) has actually remained quite consistent, falling ever so slightly from 18.35% as at the end of 2024 to 18.34% as at the end of 2025, with the increase in the risk requirements simply reflecting the increase in the size of the funds. The decrease in aggregate FSR is then not due to increased risk in the funds, but is because the financial resources have not grown in proportion to the growth in the funds.

Financial resources for par business are primarily the excess of the fund assets over the guaranteed liabilities, calculated excluding future non-guaranteed benefits. We would have expected that the strong investment returns over the year, as shown in Figure 1, to have increased the surplus of the assets over the guaranteed liabilities, resulting in a significant increase in financial resources. Instead, whilst the assets have increased significantly from the strong investment returns, the guaranteed liabilities have also increased because of the fall in the SGD yield curve used to discount the guaranteed liabilities. This is consistent with the observation that total guaranteed liabilities as a proportion of total policy liabilities has increased from 70% as at 31 December 2024 to 73% as at 31 December 2025.

If the dollar duration of the assets is equal to that of the guaranteed liabilities, then, ignoring convexity effects, we would expect the increase in the guaranteed liabilities from the fall in interest rates to have been offset by the increase in the fixed interest asset portfolio market value. In practice, however, we observe that the guaranteed liabilities typically have longer dollar duration than the assets. Ignoring all other factors, this would explain the decrease in financial resources. However, the very strong equity returns observed in 2025 should have had a positive impact on financial resources, and we might have expected this to offset or even exceed the loss from dollar duration shortfalls, but it has not.

A reason for this could again be the result of currency mismatch and/or the approach to FX hedging. Where funds (partially) use USD fixed interest assets to support the guaranteed liabilities, the greater fall in SGD yields compared to USD yields would lead to the liabilities increasing by more than the assets. If currency swaps were being used to hedge the FX risk, they would reduce/eliminate this basis risk, increasing in value to bridge the gap between the liability and asset movements, but short FX forwards would not provide the same mitigation.

Conclusions and future outlook

Although we have seen FSRs decrease over 2025, the strong investment performance over the year should have helped to improve bonus supportability. As we can see from the average investment returns over the past five years, the strong returns in the last two years have still not fully offset the very poor returns in 2021 and 2022 relative to the illustration cap rate of 4.25%. However, if returns continue to be strong, long-term historical returns will continue to improve. The recent good performance will also have benefited from new premium income that would not have been affected by the earlier negative returns, further strengthening bonus supportability of the funds.

The decrease in FSRs, despite the very strong investment returns, is perhaps an indication of shortcomings in insurers' interest rate risk management, quite possibly reflecting the basis risk associated with using USD-denominated fixed-interest assets to support SGD liabilities and the type of FX hedges employed. Insurers may want to review their practices in this regard, but it could also be that insurers are consciously accepting this basis risk in view of the higher yields being offered on USD bonds and the high cost of hedging with cross-currency swaps at the current time. If the par funds have sufficient economic capital, management may view using that capital to support the basis risk as better value for policyholders than trying to hedge it.

Despite the economic effects of the war in Iran, equity markets have continued their strong growth in 2026, with the Straits Times Index, S&P 500 and FTSE Global All Cap total return indices up 24.1%, 10.1% and 11.4% respectively for the year to 31 July. Singapore government bond yields had fallen further earlier in the year, but by 31 July were slightly up against where they had been at the end of 2025. If they remain at current levels, the strong returns from equity markets should result in positive impacts to both bonus affordability and FSR levels, however the USD yield curve has risen relative to its position at the end of 2025, so there could be some investment losses from this.

Based on current economic positions, the outlook is for Singapore par funds to be in stronger positions as at the end of 2026 than they were at the start of the year, both in terms of bonus supportability and solvency. However, with the ongoing wars in Iran and Ukraine, and their geopolitical implications, current economic conditions feel quite volatile and things could still change significantly between now and the end of the year.

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