ALM IN SINGAPORE – CONTINGENCY PLANNING

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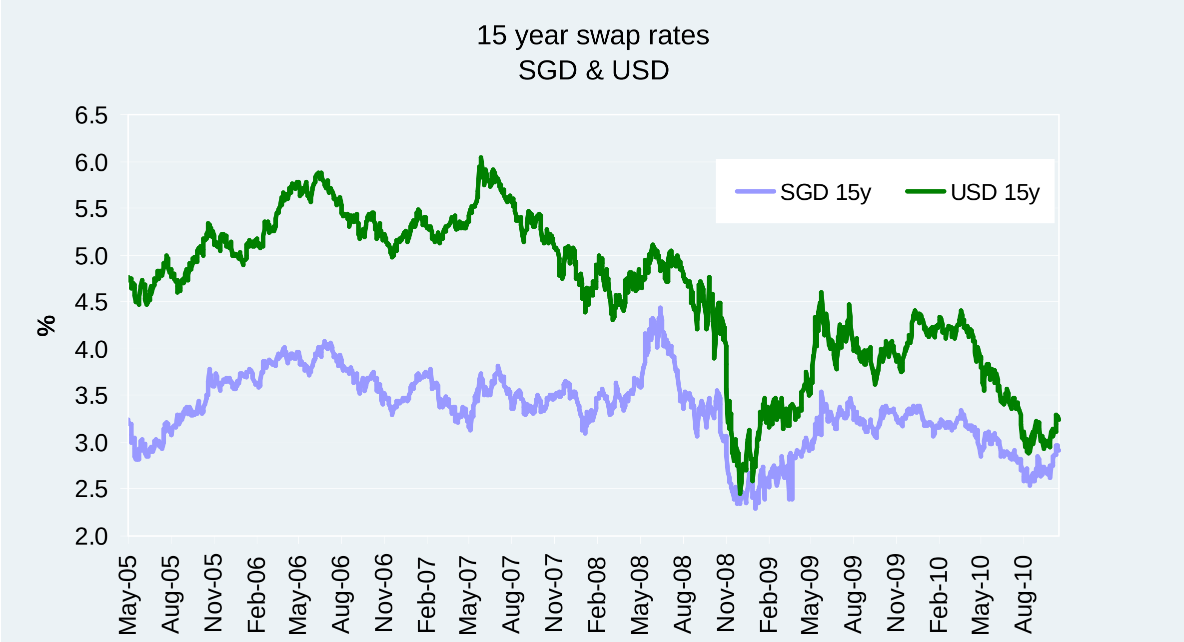
What keeps Singapore actuaries (and their bankers) awake at night?

The "*duration and yield*" challenges look familiar, the circumstances do not

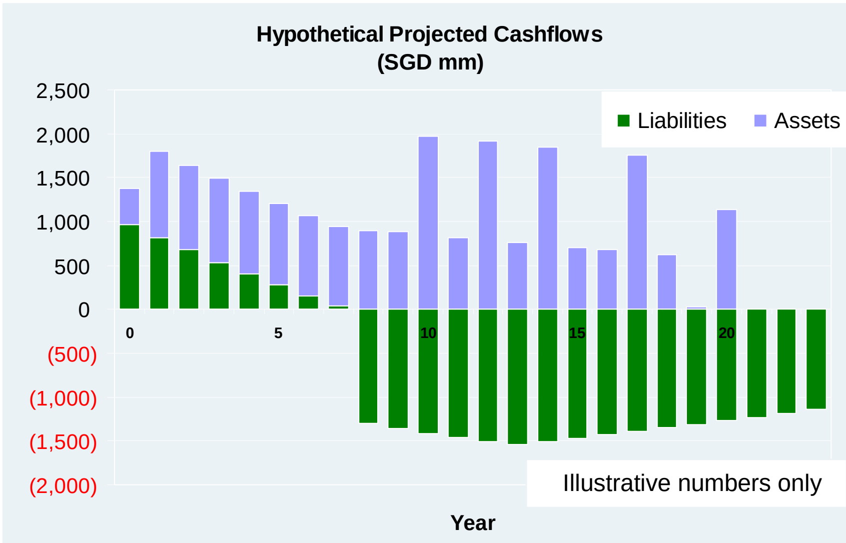
- Weight of money chasing long dated SGD assets – not just life insurers
- Low but steep yield curve
  - Compared with par fund expected yields of ~5%
- The SGD asset market
  - Asset concentration / correlation issues
  - Very low credit spreads
  - The offshore credit trade-off

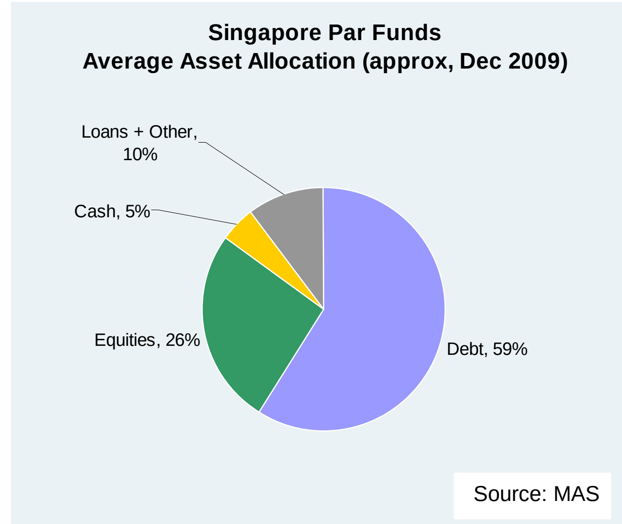


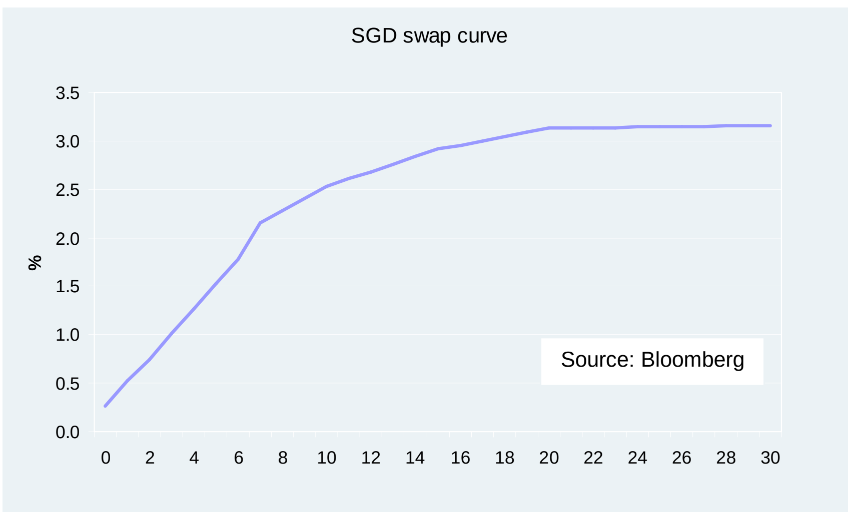
Source: Bloomberg

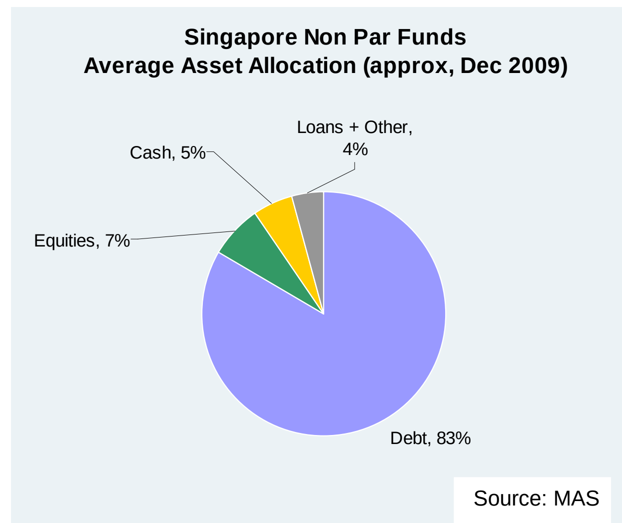
Liabilities – Why this profile matters

A typical portfolio: lots of assets, not enough duration, material risk from ongoing low rates and yield curve flattening









Please note that this particular assumption set is used for illustrative purposes only.

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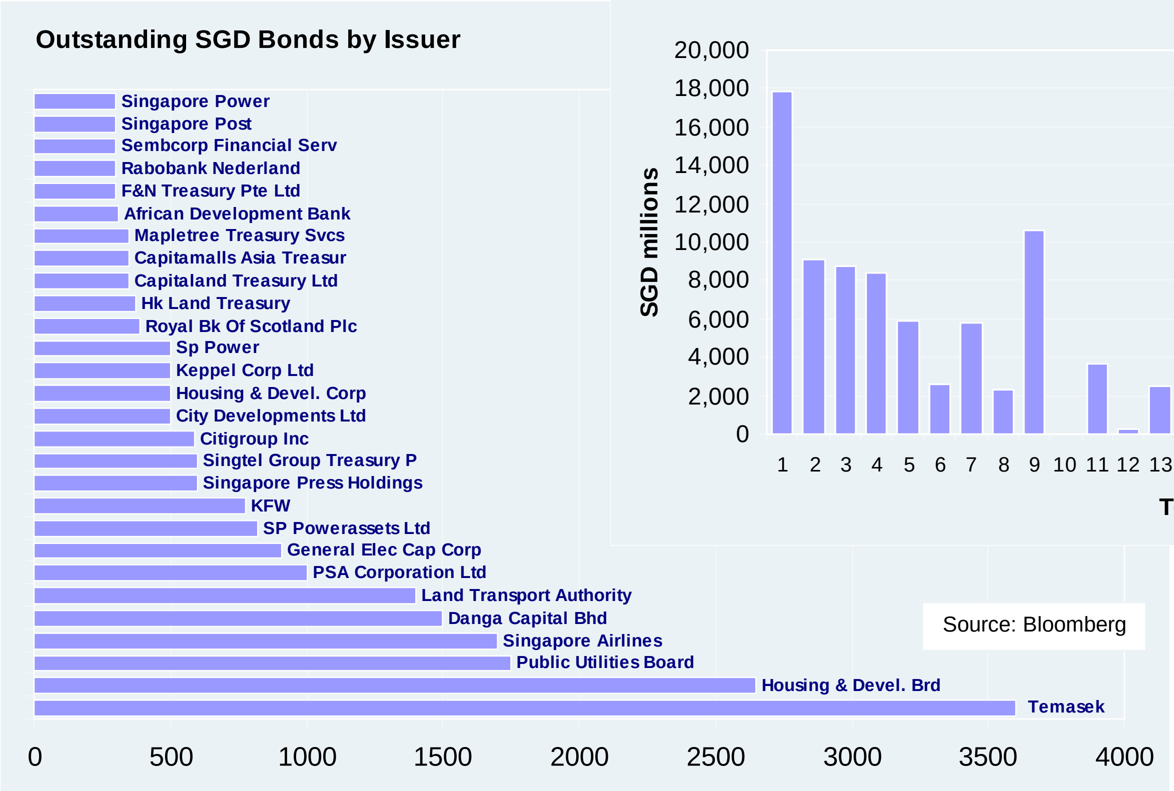
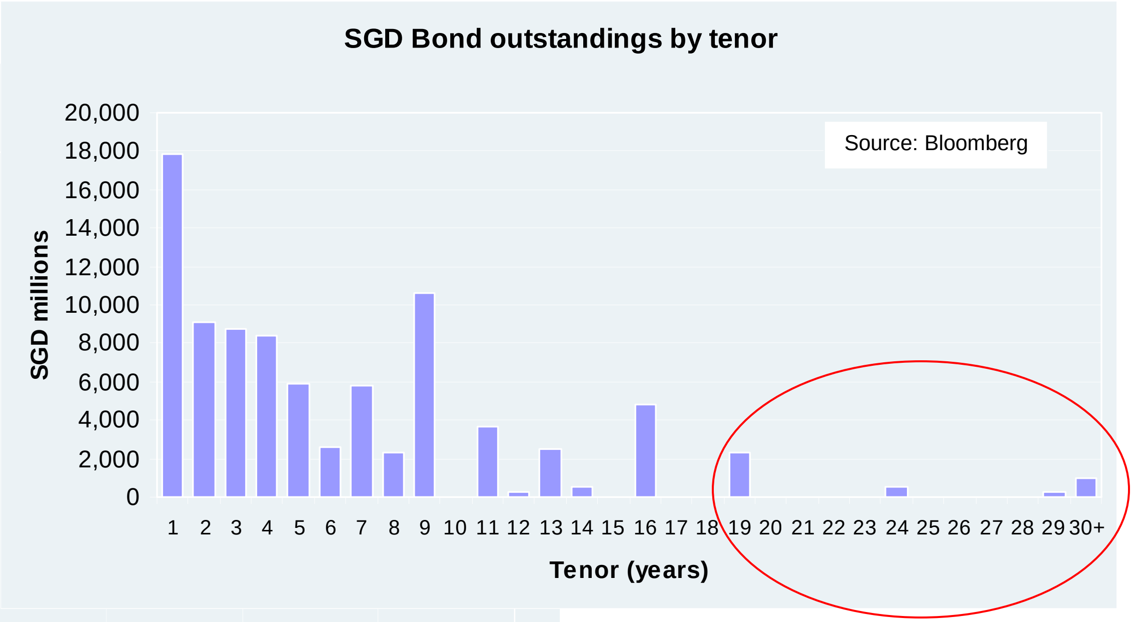
Credit: Local Singapore markets are crowded and correlated

A relatively safe harbour, priced accordingly

- Singapore is also a material "currency play", introducing a range of offshore investors to the competition for assets.
- Longer dated bonds remain hard to come by.





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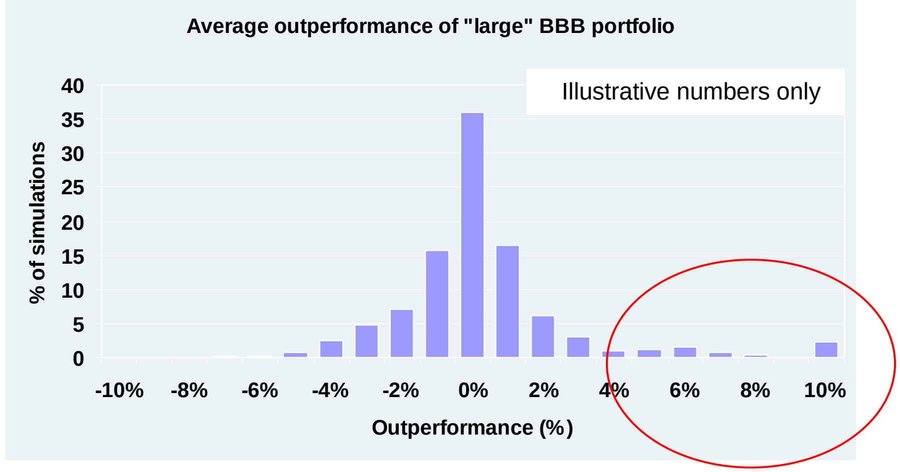
Credit: Heading offshore?

Looking to offshore fixed income is relatively common – but not without risk

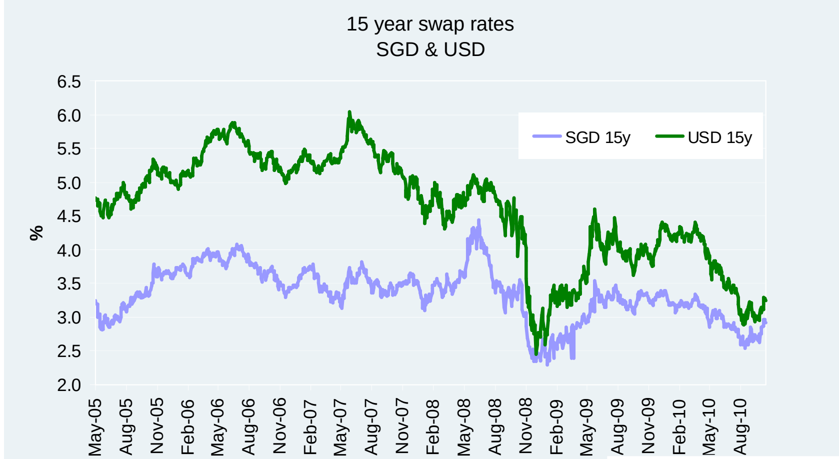
Why you do:

- Credit is the asset class that punishes lack of diversification the most
- Generally more attractive credit spreads
- Relatively high correlation of USD and SGD rates
- Relatively liquid and efficient short term FX hedging market



Why you should be careful:

- Foreign currency duration is NOT SGD duration
- High correlation ≠ perfect correlation!
- Extending currency hedges has a cost / liquidity impact

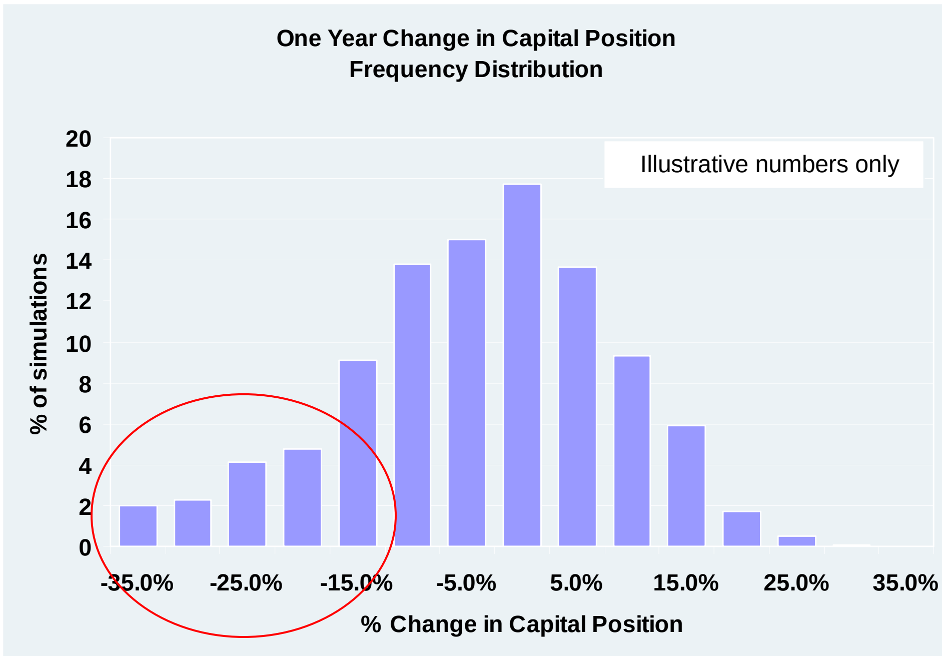


Source: Bloomberg

A hypothetical portfolio: relative risk for a simple portfolio

Interest rate risk will likely dominate for long dated portfolios

- Yield curve flattening risk tends to dominate
- Low yields for relatively short dated assets and unwind of discount on premium assets
- Credit spread widening may also be a concern at a strategic level
- Regulatory reserving methods also need to (potentially) take into account the gaps between swap rates and the LTRFDR
- The starting point (capital, regulatory reserves, buffers between MCLs and best estimate reserves for par) can make a very large difference to the analysis



Contingency Planning: the key “what ifs”

Risk identification is relatively easy, choosing how to respond is not

- Know your exposures and your tolerance
  - Yield curve flattening - how much does it hurt?
  - Relative yield curve risk (especially USD vs SGD)
  - When do you need to ask for more capital?
- Longer term – we need to consider that rates may remain at these levels
  - What does your business look like after 3 years at 3%?

- **Planning our response:**
  - Ensure have capacity for “tactical” hedging as required
  - Changes in business mix
  - Encourage your bankers to manufacture assets that make sense!

Some broader challenges

"What gets measured gets done"

- Realistically, how will we prioritise the ALM task
  - vs new products
  - vs IFRS 4 Phase 2 + Solvency 2
- Actuarial salaries