

## Insurers switch up investment strategies to deal with shift in markets

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APRA regulated and government insurers are changing their investment strategies to deal with a low interest rate environment.

Many state government insurance schemes, such as workers compensation and compulsory third-party schemes, invested heavily in inflation-linked bonds. As interest rates have fallen to record lows, they have been forced to diversify their portfolios.

"We've seen these schemes move towards more growth-type portfolios, at the bare minimum 50:50 portfolios, anywhere up to 75:25 portfolios in the extreme scenario," Frontier Head of Liability Driven Investing, Elie Saikaly, said.

This includes investing more in illiquid assets such as private debt and real assets, given many of these schemes are cashflow positive. However, they also face political pressure to keep premiums consistent, which means their portfolio returns must also be consistent.

"The idea is those portfolios are for the long-term to back those long-term liabilities, not to shoot the lights out, not to attract new members, not to compete in the performance tables. It's in fact quite the opposite. It's very risk aware and risk averse."

However, APRA-regulated insurers have maintained their focus on fixed income given their business is more short-tail and the need to hold excess capital.

"Schemes can be underfunded, as it were, and they can dip below 100% as long as there is a plan in place, and as long as the board and all stakeholders are fully aware of the actions that are required to get it back within that target range."

Yoke Keen Mak, Executive Manager Investment Strategy and Portfolio Management, Suncorp Group, said absolute return liquid alternative strategies were considered attractive but the real-world performance was different.

"Experience has shown that it hasn't delivered and complexity is an issue. When you can't explain the drivers of performance, especially when it's negative, in a clear and concise manner, it's very hard to get that across the line."

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