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OPPORTUNITIES FOR ASIAN INSURERS

IMPROVED CASH MANAGEMENT

As interest rates have normalised following an extended low-rate period, insurers in Asia are reassessing how they manage liquidity. Moving from concentrated bank deposits into diversified cash strategies, such as money market funds (MMFs), may improve capital efficiency while enhancing the balance between liquidity, security and expected return.

Background

We believe bank deposits remain a core liquidity tool for insurers in Hong Kong and Singapore. However, recent episodes of bank stress have highlighted that deposits are not without risk, particularly where exposures are concentrated among a limited number of counterparties.

For insurers operating in highly regulated environments such as those overseen by the Insurance Authority (IA) in Hong Kong and the Monetary Authority of Singapore (MAS), treasury management must balance:

- liquidity requirements,
- counterparty risk, and
- capital efficiency.

Diversifying liquidity across a broader range of high-quality instruments can reduce reliance on individual institutions.

Regulatory overview for bank deposits

Similar to European insurers subject to Solvency II, insurers in Hong Kong and Singapore operate under a risk-based capital (RBC) regime. This means that the regulatory capital that they are required to hold should be closely aligned to the economic risks that they are facing:

- Hong Kong RBC (implemented 2024)
- Singapore RBC 2 framework

While methodologies differ, both frameworks share similar principles:

- capital charges reflect counterparty credit quality,
- concentration risk (Singapore)_increases required capital, and
- limited diversification can lead to higher effective capital usage.

As a result, large exposures to a small number of banks, particularly if not highly rated, can be capital inefficient relative to diversified portfolios of short-dated securities.

Characteristics of Money Market Funds

MMFs available to Asian insurers are typically UCITS-domiciled (e.g. Ireland/Luxembourg) or locally authorised funds in Hong Kong or Singapore.

They generally offer:

- High credit quality (often AAA-rated portfolios),
- Short duration exposure,
- High levels of liquidity (daily or T+1 settlement),
- Diversification across issuers and instruments.

Figure 1: Not all money market funds are equal ¹

Category	Public Debt CNAV	Short-term VNAV	Standard VNAV
	LVNAV		
NAV type	Constant	Variable	
Daily/weekly liquidity	Higher minimum allocation	Lower minimum allocation	
Settlement	Faster	Slower	

While the terms constant net asset value (CNAV), limited volatility NAV (LVNAV) and variable NAV (VNAV) for different structures of MMF are not specifically classified terms in Hong Kong or Singapore, they can be relevant for Asian investors accessing offshore vehicles where clarification is required.

Liquidity waterfalls

By undertaking an analysis of liquidity requirements in both normal and stressed markets, as well as other sources of liquidity such as premium income, income and redemption from bonds and reinsurance recoveries, insurers can obtain a better understanding of the timescales over which cashflows are required.

This can allow them to mitigate the drag associated with holding too much cash on their balance sheets and allow them to incorporate slightly longer-dated assets such as enhanced money market funds and short-dated credit funds into their liquidity strategies.

Capital efficiency - an Asian perspective

Consistent with the methodology used in Solvency II, insurers in Hong Kong and Singapore need to look through into the underlying exposure of an MMF and apply the relevant capital charges to those exposures.

The high quality and short duration of these exposures mean the capital charges will normally be very low, and almost certainly lower than for concentrated bank deposits.

Key potential benefits of diversified cash strategies

For Hong Kong and Singapore-based insurers, reallocating part of cash balances into MMFs and enhanced cash strategies may offer:

1. Improved diversification
 - Exposure to large numbers of separate issuers versus a smaller number of individual banks
 - Reduced reliance on individual counterparties
2. Robust liquidity management
 - Same-day or next-day access in most MMFs
 - Suitable for operational and regulatory liquidity requirements
3. Capital efficiency
 - Lower concentration risk under the Singapore RBC frameworks
 - Improved capital utilisation relative to large, concentrated deposits
4. Enhanced yield opportunities
 - Access to a broader opportunity set
 - Ability to seek capture of term and credit premia where present, within a controlled risk framework
 - Ability to incorporate higher yield exposures as part of a 'liquidity waterfall' framework

Diversified cash strategies may contain pitfalls, including such potential drawbacks as reduced returns versus longer-dated fixed cash deposits should interest rates decline, or possible reduced liquidity in extreme and disruptive market conditions.

Conclusion

For insurers in Hong Kong and Singapore, the reassessment of cash management is increasingly relevant in an environment of higher rates and greater volatility.

While bank deposits remain important, an over-reliance on concentrated exposures may be suboptimal from both a risk and capital perspective.

Incorporating MMFs as part of a structured liquidity waterfall may be able to:

- improve diversification,
- maintain liquidity flexibility,
- enable more efficient deployment of capital, and
- provide enhanced returns.

¹ Source: Insight. March 2026. For illustrative purposes only.

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