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Insight

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Risk, regulation and return

Positioning ABF within APAC insurance capital frameworks

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Introduction

Public fixed income markets have long been the default solution for insurers looking to balance their needs for stable income, capital preservation and liability matching. But a combination of tight credit spreads and what remain, by historical standards, low interest rates, means insurers have been looking further afield, especially as accounting standards and capital regulations evolve.

The challenge, and the opportunity, are nowhere clearer than in the Asia Pacific (APAC) region, where new insurance capital regulations are being introduced in several key markets.

Asset-based finance (ABF) is one investment solution attracting insurers' attention. It offers a combination of predictable income streams, downside protection, improved alignment with long term liabilities and the potential for improved capital efficiency.

Adding ABF to a portfolio requires a clear understanding of the various different types of assets contained within the investment universe and the specific capital treatments applied by regulators in different jurisdictions.

Regulators in Hong Kong, Japan, Singapore, South Korea and Taiwan have already introduced or will phase in new capital rules over the next few years. Various referred to as risk-based capital (RBC) rules or Insurance Capital standards (ICS), these countries' regulations have much in common. But there are significant variations in detail that mean different types of ABF investment are more suitable in some jurisdictions than others.

Understanding the ABF universe

Far from being a single asset class ABF, is best regarded as a range of tools, each with its own characteristics and uses. The common theme across all ABF products is that risk and return are anchored in identifiable assets or contractual pools of cash flows.

Aviva Investors divides ABF into three broad categories:

- Hard assets
- Financial assets
- Esoteric assets

Hard assets, such as aircraft leases, rental car fleets, data centres or commercial mortgages, are tangible and have an intrinsic collateral value.

Financial assets are those where repayments come through contractual cash flows from receivables or pools of loans to, for example, small and medium sized businesses or students. It might also include financing structures like Net Asset Value (NAV) facilities.

Esoteric assets can include healthcare receivables, litigation funding or music royalties.

Figure 1. **ABF types**

Hard assets		Financial assets		Esoteric assets
Equipment loans	Aviation loans	Net asset value loans	Subscription lines	Royalties
Auto loans	Trade finance	SME loans	Warehousing	Litigation finance
Real estate loans	Data centres	Consumer loans	Student loans	Franchises

ABF is not always a completely distinct asset classes from corporate direct lending. Both are often used by borrowers and sponsors as an optimisation tool for their financing structures. However, their suitability will depend on the precise structure of a particular investment. For example, lending directly to a corporate borrower may offer a reasonable yield, but the exposure might be at a holding company level, structurally subordinated and tied to remote excess cashflows accessible only after financial costs at the operating company level have been paid.

Insurers' unique challenge

For insurers, the investment challenge is particularly complex. As well as seeking predictable income and capital preservation, they must also balance regulatory capital requirements. On top of this, they must also navigate accounting constraints, such as IFRS 9 for financial instruments and IFRS 17 for insurance contracts. These influence how assets are measured and how volatility appears in reported earnings, which in turn shape insurers' appetite for different investment structures.

ABF is increasingly demonstrating its value as a flexible option for insurers. When structured well, ABF can sit comfortably within core fixed-income allocations while offering the potential for meaningfully higher returns.

Amortising structures, strong collateral packages and the investment grade (IG) ratings of many ABF investments can also make exposures both capital-efficient and accounting-friendly.

ABF can give insurers more precision in portfolio construction, allowing tighter control of credit quality, sector concentration and duration.

ABF can also support insurers' long-dated duration and liability-matching needs, through predictable and transparent cashflows that enhance balance sheet stability. While some structures amortise over time, the key benefit for insurers is reduced reliance on reinvestment and greater certainty of cashflows over the lifetime of the liability.

With the most granular loan pools, for example SME lending, mortgages or student loans, structures can be tailored to match an insurer's particular risk appetite and liability profile in a way that conventional fixed income often struggles to replicate.

The APAC dimension

Aviva Investors' approach to this segmentation mirrors the essentially risk-based approach to capital regulation found within the APAC region.

Regulators in APAC look at ABF, not according to the label applied to the underlying assets (mortgages or trade finance for example), but instead they assess it through the lens of risk.

APAC regulators are asking a broadly consistent question: how safe and predictable are the cashflows supporting the investment?

The effect on capital is determined not by whether the underlying pool consists of mortgages, infrastructure assets or receivables, but by the risk profile and structure of the investment.

Regulators typically require clear visibility of the underlying exposures, strong collateral packages, senior positioning in the capital structure and robust cashflow controls.

Transparent, well-documented structures are treated more favourably than opaque or complex ones, and pools with homogenous credit characteristics are easier to assess, manage and justify from a capital perspective. Collateral quality and seniority are more important drivers of capital efficiency than headline yield.

But while these are common features across many APAC jurisdictions, risk is penalised in different ways in each market. For example, some regimes place the emphasis on market movements, others focus primarily on credit losses, while some are particularly sensitive to transparency and explainability.

As a result, the same ABF structure may be better suited to an insurer in one jurisdiction than in another. One example is the way in which attitudes to duration, or interest rate, risk can vary.

As an example, Japan's Insurance Capital Standard (J-ICS) is less sensitive to duration. This gives longer dated assets with stable cashflows a more favourable capital treatment in that market. Meanwhile, other APAC regimes, tend to penalise duration more directly and place a higher emphasis on the structure and seniority of the loans.

So, while regulatory principles are broadly consistent across the region, outcomes depend on how each market prices credit risk, duration and transparency.

The table below highlights which forms of ABF can be deployed most effectively across Japan, Korea, Hong Kong and Singapore.

Figure 2. **Summary of ABF considerations across key regions in Asia**

Country	Regulatory approach	When ABF works well	What hurts the most
Japan (J-ICS)	Economic-value, risk-based framework. Generally supportive of ABF. Focus on credit risk and liability management, long term stability, cashflow matching and sustainability disclosures.	Long-dated senior ABF with predictable cashflows.	Weak structure of opaque pools
Korea (K-ICS)	Focus on credit risk and concentration. No consideration of spread risk. Core capital requirement of 50% (from 2027).	Short dated, well collateralised.	Long duration and complex securitisation.
Hong Kong (HKRBC)	Risk-based with strong look through requirements. Focus on transparency with a 100% charge for opaque structures.	Highly transparent senior ABF.	Opaque or complex structures.
Singapore (RBC2)	Risk-based and conservative. ABF treated as a structured product, but regulation due for review in 2026. Spread risks are rating and duration sensitive.	High quality, well structured ABF.	Extra buffers applied to ABF (50% currently) and poor transparency.

Source: Aviva Investors' analysis based on regulations published in respective markets as at March 13, 2026.

ABF presents insurers with an opportunity beyond traditional public credit markets and is increasingly becoming a core rather than a niche allocation.

The key to grasping this opportunity is recognising the importance of risk as the essential metric rather than the label placed on the underlying assets. And in the case of APAC countries, the selection of ABF investments needs to be expertly selected to maximise capital efficiency under the capital regulations of the specific jurisdiction.

For insurers who successfully balance these factors, ABF can offer high quality, transparent investments that deliver predictable cashflows, balance-sheet stability and regulatory capital efficiency.

Key risks



Investment risk

The value of an investment and any income from it can go down as well as up. Investors may not get back the original amount invested..



Illiquidity risk

Certain assets could, by nature, be hard to value or to sell at a desired time or at a price considered to be fair (especially in large quantities), and as a result their prices could be very volatile.



Market risk

Changing market dynamics may undermine the relative attractiveness of structured transactions.



Complexity risk

Assessing risk implications of multi-layered transactions is challenging.

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