QUARTELY CLIENT
NEWSLETTER

THE PIAS QUARTERLY

INSIDE THIS ISSUE

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The PIAS Quarterly covers a range of topics from well-known and trusted finance organisations, ensuring you stay ahead of the curve.

THE TRUE VALUE OF LIFE PROTECTION

Etiqa Insurance Pte. Ltd.

If you're forgoing life protection to save money in the short-term, you need to read this!

Amid our evolving pandemic environment, it seems more people are placing greater importance on their long-term financial and healthcare needs by getting life insurance[1]. In the first half of 2021, Singapore life insurance industry recorded new business premiums with a surge of 61%[2] compared to the previous pre-COVID-19 period. Yet, there are still some who are quick to forgo life protection.

What is life protection?

Have you ever wondered how much money your family would need in the event of death and whether you have sufficient funds to meet their financial needs?

Based on an LIA study, on average, a working adult in Singapore has a mortality protection gap of S$170,352 and a Critical Illness protection gap of S$264,586.[3] The Critical Illness protection gap is the shortfall of money one should have to meet the financial needs of you and your family before one is able to return to work.

This is where life protection come into place. Generally referring to protection plans in life insurance, the primary purpose of these plans is to provide comprehensive coverage to safeguard your family's future in case of unforeseen situations and ensure they can continue to live comfortably without financial worries. Common life protection plans include Term Life, Whole Life, Critical Illness, etc.

Term life vs Whole life vs Critical illness plans

Term Life Insurance

A basic life protection plan with affordable premium, term life insurance **generally provides coverage for you for a specific amount of time**, from 5 years up to 20 years or more, after which the policy expires. Depending on the term plan, you may choose to renew your policy at an updated premium rate upon expiry.

To some, term life insurance may seem like an expense rather than an asset, since you pay premiums for only a fixed number of years of protection – which you will hopefully never need. It can be conveniently portrayed as a waste of money but there's more to it.

Life protection plans, including term life insurance, comes with death protection. The primary purpose is to provide your loved ones with financial security in times of tragedy. Having a term life insurance ensures that your family will not be laden with leftover debts, have time to get back on their feet, while your children are provided for until they can support themselves.

Term life insurance can also protect your assets. For those who are living the Singapore dream of being a homeowner, a level term life insurance is sometimes preferred over a decreasing term life insurance i.e. mortgage insurance. The former offers a fixed sum payout based on the amount that you have insured for rather than being attached to a housing debt like the mortgage insurance payout. This means your family will receive a fixed sum payout that they can use to their discretion in case of unfortunate event(s).

Whole life Insurance

As the name suggests, whole life insurance provides protection for your entire life or upon reaching a specified age (e.g. age 100). Due to its lifetime coverage, the premium amount is often fixed, but higher than term life insurance for the same amount of coverage.

However, whole life insurance has a cash value that increases over time. You can think of it as a form of accumulated savings. Depending on the policy, the cash value can be obtained as your return on investment in the form of surrender value or death benefit.

In the event of death, the beneficiaries (often the loved ones) will receive the sum assured and accumulated savings. While some people opt to surrender the policy before it matures (not recommended!), there are others who buy whole life insurance as a form of legacy for their children and grandchildren.

Critical illness insurance

Designed to **offer a lump sum payout if you are diagnosed with a serious illness, Critical Illness (CI) plans are offered as a standalone policy or as an additional add-on feature** to a Life insurance policy called rider.

People purchase CI plans because they provide additional financial coverage for serious diseases that may incur extraordinary hospital charges. In Singapore, most insurers cover the 37 standard critical illnesses as defined by Life Insurance Association Singapore, which include major cancers. Some insurers also offer coverage for other critical illnesses on top of these 37 standard critical illnesses.

Other CI-related plans include cancer insurance or those that focus on more targeted health conditions.

Life protection needs at different stages of life

In your early 20s

Chances are you are studying or embarking on your new milestone of entering the workforce. It is time to look into insurance, if you have not already done so. For many of us, our parents would have bought insurance policies when we were young so it would be good to review what you already have before committing to a new policy.

At this stage, your youth and ability to work is your greatest personal financial asset. If you face any health issues, you may incur greater financial commitments that may spill over to your family; e.g. medical bills for a serious illness, life expenses in case you're unable to pursue a career or existing debts in case of sudden demise.

You may want to consider term life insurance that offers life protection at a very affordable premium, especially when one is younger.

In your mid 20s – 40s

Welcome to the millennials' club. While you can take solace in the fact that you're not alone, being Singapore's new "sandwich generation" means that you carry heavy responsibilities of supporting your ageing parents and yourself (eventually) in old age, as well as your own (future) family.

Life insurance and critical illness protection can ensure you get the sufficient protection that's needed, in case your family lose the ability to earn a regular income. For those who are worried about taking on extra financial commitments while everything looks rosy, you should know that Etiqa's Protection Survey Report in 2021 revealed that millennials generally overestimate the cost of term life insurance and critical illness protection.

Regular reviews of your life protection plans is recommended to ensure you get adequate coverage at a budget that you are comfortable with.

In your 50s and Above

Are you on track to retire or already enjoying retirement life? As we grow older, we begin to understand the ever-giving nature of the older generation. In addition to being self-sufficient, you'd most likely want to leave a legacy for the younger generations. Elevate your savings with an endowment plan that provides a monthly retirement income on top of a lump sum maturity benefit.

As one ages, the onset of illnesses is also inevitable. In addition to maintaining a healthy lifestyle, having life protection and critical illness insurance are equally important. You can give yourself a pat on the back if you've planned for this early on. If not, to explore your options.

True value of life protection

True value of life protection You may be thinking, “is life insurance really necessary?”

At first thought, most people may think that their house is the most valuable financial asset, especially with even public housing in Singapore recording million-dollar price tags! However, what happens if a sole breadwinner suddenly loses his/her ability to earn a regular income or passes on?

While owning a house is essential, the ability to earn a regular income for your household is of equal, if not greater, value to you and your loved ones. A stable salary that covers your mortgage or rent, feed your family, pay for your children’s education, etc.

Life protection plans are the backup plans for you and your family to fall back on in times of need.

Source(s):
[1] https://www.lia.org.sg/media/3947/20230811_lia-1h2023-results_media-release
[2] 2022 LIA Singapore Protection Gap Study (PGS)
[3] Gen Re’s “2012 Dread Disease Survey

About Etiqa Insurance Pte. Ltd.

“Protecting customers since 1961, Etiqa is a licensed life and general insurance company registered in the Republic of Singapore. We are regulated by the Monetary Authority of Singapore (MAS) and governed by the Insurance Act.

With a comprehensive suite of protection, savings, retirement and legacy planning solutions, we are committed to helping our customers from mass to affluent segments plan for a better future. Rated ‘A’ by Fitch in 2023 for our financial strength and stable outlook, we humanise insurance by placing people over policies.”

For more information, please visit https://www.etiqa.com.sg/

PRIVATE EQUITY MAKES A PITCH FOR DECARBONISING ASIA

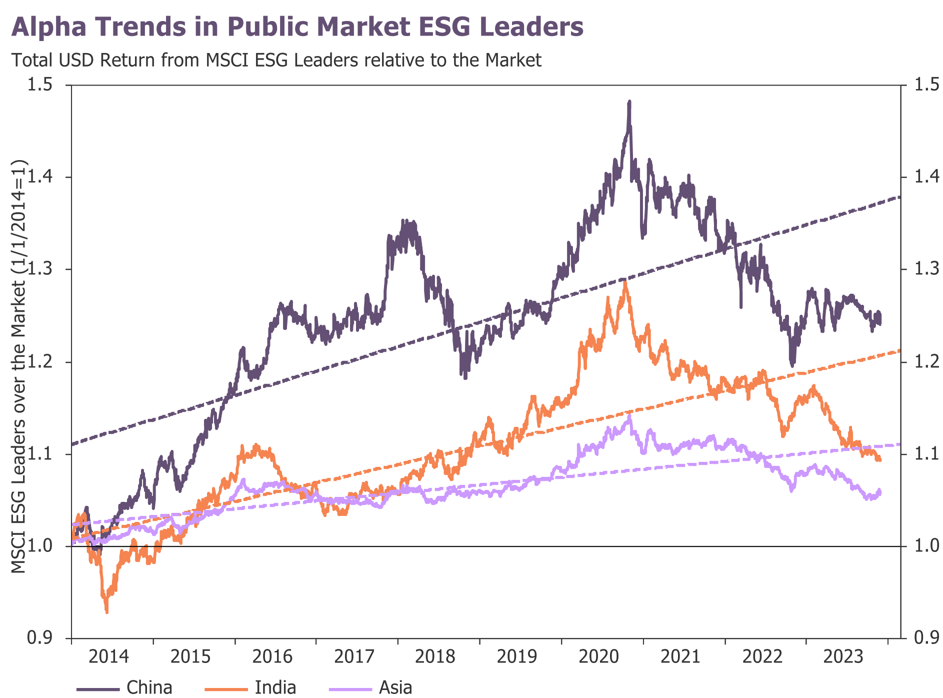
Fullerton Fund Management Company Ltd ("Fullerton")

Introduction

We see a positive outlook for ESG-related investments, especially across Asia. Although the green energy transition across the region is paved with challenges, there are likely to be attractive opportunities as decarbonisation investments scale-up over time.

Across public markets, ESG-leader stock indices[1] across Asia have been a trend source of alpha for investors for a while now (see Figure 1). That said, ESG-leader returns have consolidated with broader market weakness across Asia over the last few years. However, such cyclical weakness could offer potentially more attractive entry-points for investors who are convinced of the decarbonisation theme.

Figure 1: Alpha gains for investors from Asia ESG-leader stocks



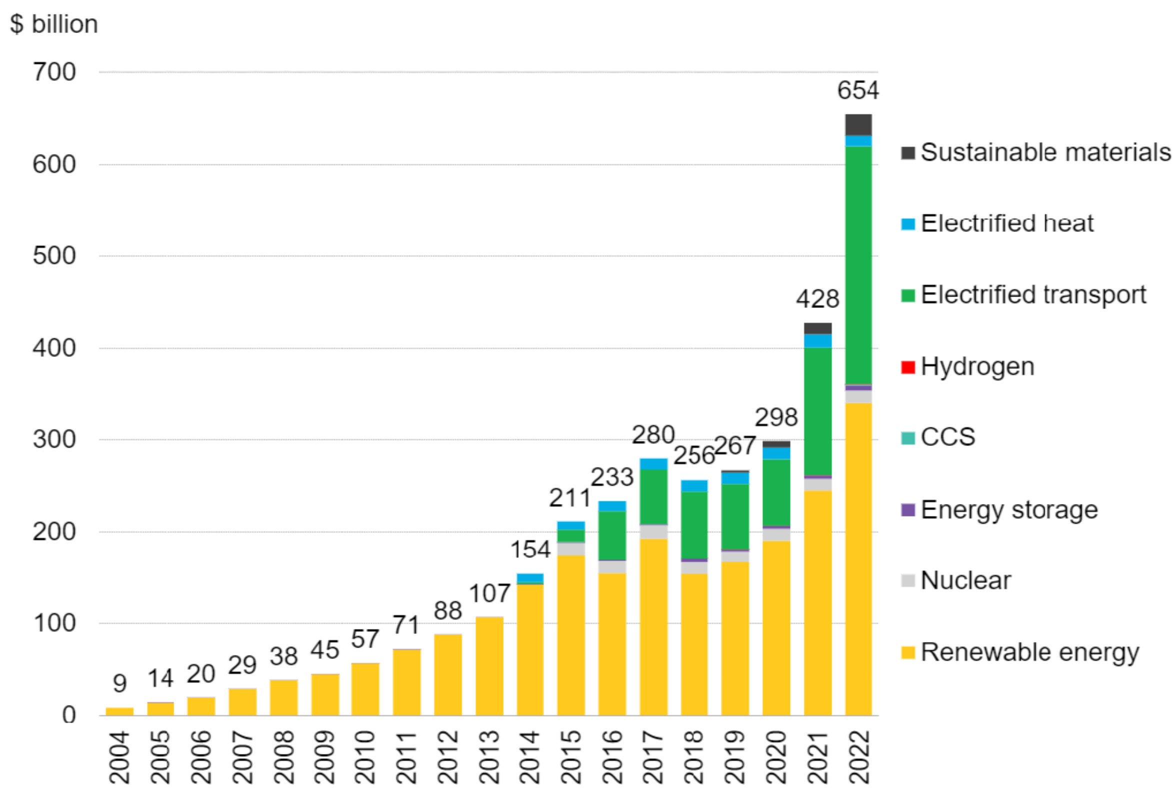
Source: LSEG Datastream, November 2023.

[1] Refers to the MSCI ESG Leaders indices of China, India, and Asia

Opportunities across public markets notwithstanding, the ongoing decarbonisation process across Asia will involve an extraordinary amount of capital, and that is where private markets will likely play a critical role.

It is estimated that Asia's decarbonisation journey will require up to $37tn just to bring its energy supply in line with net zero by 2050.[2] For perspective, this averages about $1.4tn of investment on average per annum (which is around twice the latest spending patterns). Investment spending is certainly ramping up across Asia – it has more than doubled since 2020, at $654bn now in 2022[3] (or 1.6% of Asia GDP, see Figure 2), with China being a dominant player. Around 85% of Asia's total energy transition investments is in China (i.e. $546bn in 2022[4]), with an equal split between renewable energy and electrified transport.

Figure 2: Asia Pacific's energy transition investment (by sector)



Source: Bloomberg NEF, March 2023.

For private capital looking to 'green' businesses and drive value creation, there will be investment opportunities in several sectors, including renewable energy, electrification, and manufacturing.

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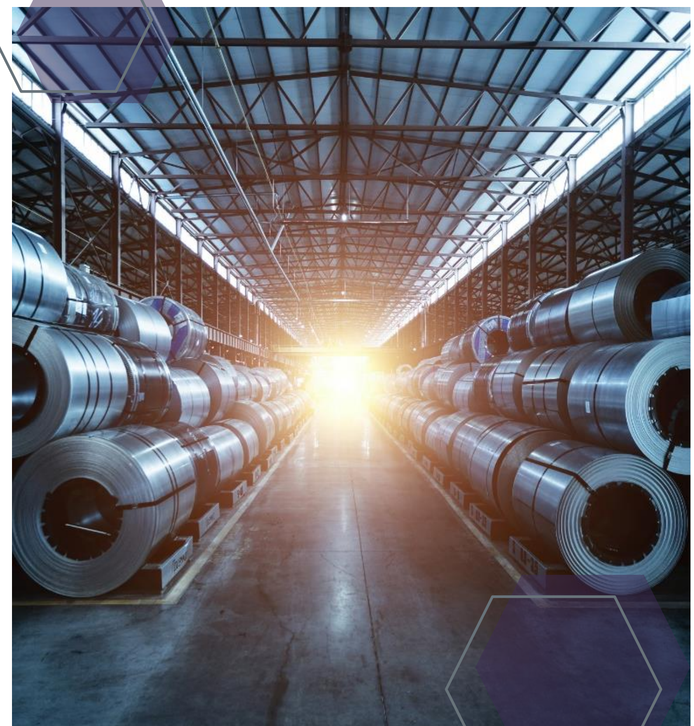
2 https://www.aigcc.net/wp-content/uploads/2021/03/March-2021_-Asias-Net-Zero-Energy-Investment-Potential-English.pdf

3 Source: Bloomberg, March 2023

4 Source: Bloomberg, March 2023

Deal activity over the past two years demonstrates this potential: the value of private equity deals targeting Asian companies in the energy, mining, and utilities sectors, which are all relevant to the energy transition, peaked at US$25.3bn in 2021.[5]



Renewable energy in particular — even in Asia's low-emitting countries — is growing fast and attracting private equity funds: Asia accounted for 60 per cent of new renewable energy capacity in 2021,[6] and deal activity continued in 2022 with transactions such as Actis's acquisition of a stake in Vietnam's Levanta Renewables.[7]

Investment goes beyond renewables

Renewables are a compelling opportunity, but there are other avenues like the 'greening' of steel production (a very carbon-intensive sector) that potentially offers attractive returns in the region To achieve greater decarbonisation in industry and manufacturing, technologies such as carbon capture, storage and utilisation, and green hydrogen will have to be rolled out at scale. This is already taking shape with for example, the recent deal between Gunung Raja Paksi, one of Indonesia's largest steel companies and Fortescue Future Industries, who are collectively exploring how a value chain can be developed for green hydrogen and green ammonia to decarbonise steel manufacturing.[8]

Private investors are also seeing the potential in this space, acknowledging the need to switch to greener energy and procure the necessary equipment, as well as technology to facilitate the transition.

Active management can steer businesses towards net zero

Beyond just offering access to capital for Asian businesses, private equity firms can also unlock value through operational improvements or with innovative technologies.

Private equity firms, being more active investors can play a leading role in advising companies when developing their capabilities, or even in their talent management policies. Given the additional expertise private equity firms bring to the table, they can also add value in terms of operational improvement enhancements to their investee companies.

Private equity firms also typically have greater proximity to management, which enables them to exert stronger influence over climate and ESG initiatives. Furthermore, there is also greater long-term investor alignment with management when it comes to private equity. The manufacturing sector, for example is one important area where private investors can make a meaningful difference, given the amount of waste being generated in the industry. It is in such instances that there is significant room for investment firms to manoeuvre, in enabling a company to be more ESG compliant and cost-competitive going forward.

The green economy in Asia is akin to a giant reset button, especially for smaller firms that can move faster and are nimbler.

[5] https://mergers.whitecase.com/#

[6] https://www.irena.org/-/media/Files/IRENA/Agency/Publication/2022/Apr/IRENA_-RE_Capacity_Highlights_2022.pdf?

[7] https://www.privateequitywire.co.uk/2022/08/11/316702/actis-acquires-majority-stake-levanta-renewables

[8] https://www.fmgl.com.au/in-the-news/media-releases/2022/11/14/fortescue-future-industries-to-support-indonesian-steel-giant-gunung-raja-paksi-on-path-to-decarbonisation

Decarbonisation can come with healthy returns

The opportunities in Asia have also created good returns for private equity investors. In 2020, Asia-Pacific private equity returns rose to a 10-year high at 14.2 per cent median net internal rate of return, and in 2022 private equity exit value more than doubled from the previous year to $172bn.[9]

Asia is only at the onset of the decarbonisation wave. In areas like Southeast Asia, India and China, there are financially compelling investment opportunities in sub-sectors such as the renewable energy value chain, building and construction, electric vehicles and mobility, as well as food and agriculture. These sectors are experiencing significant growth, boosted by regulatory tailwinds, but are still underpenetrated – hence the opportunity.

In summary, as the private equity market in Asia matures, the region's ambitious net zero targets and varied growth opportunities are likely to continue to attract private capital.

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[9] https://www.bain.com/insights/asia-pacific-private-equity-report-2022/

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For more information, please visit https://www.fullertonfund.com/

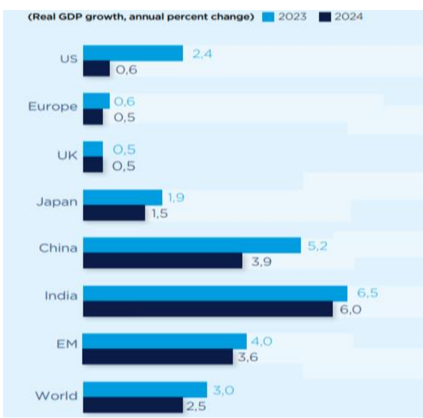
PIAS INVESTMENT OUTLOOK (Q1 2024)

Author | PIAS
Source | Amundi Investment Institute, November 2023 & Bloomberg, December 2023

The last month of 2023 was filled with economic data and central bank statements that could set the stage for 2024. Notably, the Federal Reserve has been largely convinced that inflation has been tamed and sent a surprise dovish message that rate hikes are likely done, with three rate cuts projected in 2024. After more than a year-long policy tightening, a 'soft landing' becomes a constant chime amongst investors as the robust job market has been supporting the US economy. In Europe, similarly, rate cuts by the ECB are increasingly a matter of *when*, and not *if*, as inflation cools. However, ECB policymakers had held on to the 'higher-for-longer' narrative on the back of a tight labour market. These rate-cut expectations gave rise to stock indices running hot in both US and Europe. While fears of a hard recession are not to be expected, the bullish momentum of these equities markets may wane due to the delayed impact of policy tightening as higher interest expenses may weigh on balance sheets and earnings. A soft-landing scenario is not a given and needs to be carefully maneuvered by policymakers.

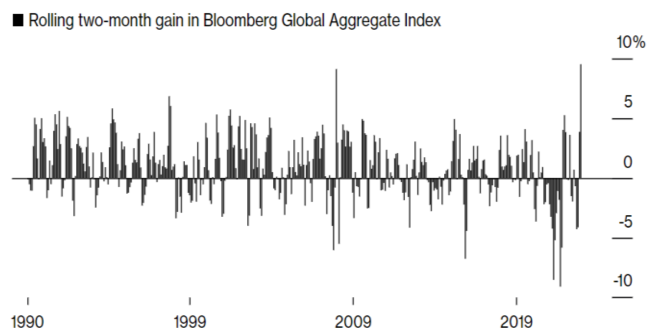
On the other hand, speculation surrounds the potential tweak to Japan's easy monetary conditions giving rise to volatilities in its equity markets. Although Japan is seeing early success in its reflation efforts, we believe that BOJ is likely to maintain its current policy stance in the upcoming quarter and possibly end its yield control policy in the latter part of 2024. **Accommodative policy support, strong company earnings growth, together with an improving stable labour market are reasons for our continued stance to be slight positive in Japan.** This is further supported by the upcoming 'Shunto' spring wage negotiations, championed by the Japanese trade union, Rengo, with targets of salary hikes of 5% or higher for 2024.

Real GDP Growth Projections for 2023 and 2024 (Chart A)



Source: Amundi Investment Institute, November 2023

Global Bond Index (Chart B)



Source: Bloomberg, December 2023

China's property market continues to be a drag on sentiments. While we believe that the prospects of a hard landing in China's real estate market have subsided with stimulus support, the recovery of sentiments remains slow with uncompleted developments and lingering defaults risks by property developers. **We anticipate supportive monetary policies to help, but the costs involved in aiding local governments and bailing out state-owned enterprises, on top of the weak property market, may continue to weigh down China's economy**. A recovery is on the horizon, albeit a gradual one, giving rise to our neutral outlook this quarter as China counter deflationary pressures. Elsewhere in Asia, India remains a bright spot, boosted by manufacturing and growth in foreign investments, in line with its urbanization trends. India's real GDP growth is forecasted to lead the major economies and projected to be 6.5% for 2023 and 6% for 2024 (**Chart A**). **India's robust manufacturing sector, together with the strong recovery of semiconductor industries in South Korea and Taiwan and a resilient Indonesia driven by consumption – contributes to our slight positive outlook in the Asian region.**

As interest rates in the developed markets reach their peaks, expectations that central banks will slash rates next year have ramped up fixed income trades with the Bloomberg Global Aggregate Total Return Index surging more than 10% in the last 2 months of 2023 **(Chart B).** The bond-equity performance was correlated when central banks embarked on aggressive rate hikes in the past year. However, we anticipate this correlation to weaken in the upcoming year as policymakers pivot to easing mode to support growth. **While we turned slight positive on bonds, we preferred quality credits higher on the credit spectrum as the global economy moderates. Therefore, we emphasize the importance for investors to seek opportunities across different asset classes in a well-diversified portfolio.**

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