Australian Government Insurers: The state of play: FY23

February 2024

Frontier Advisors

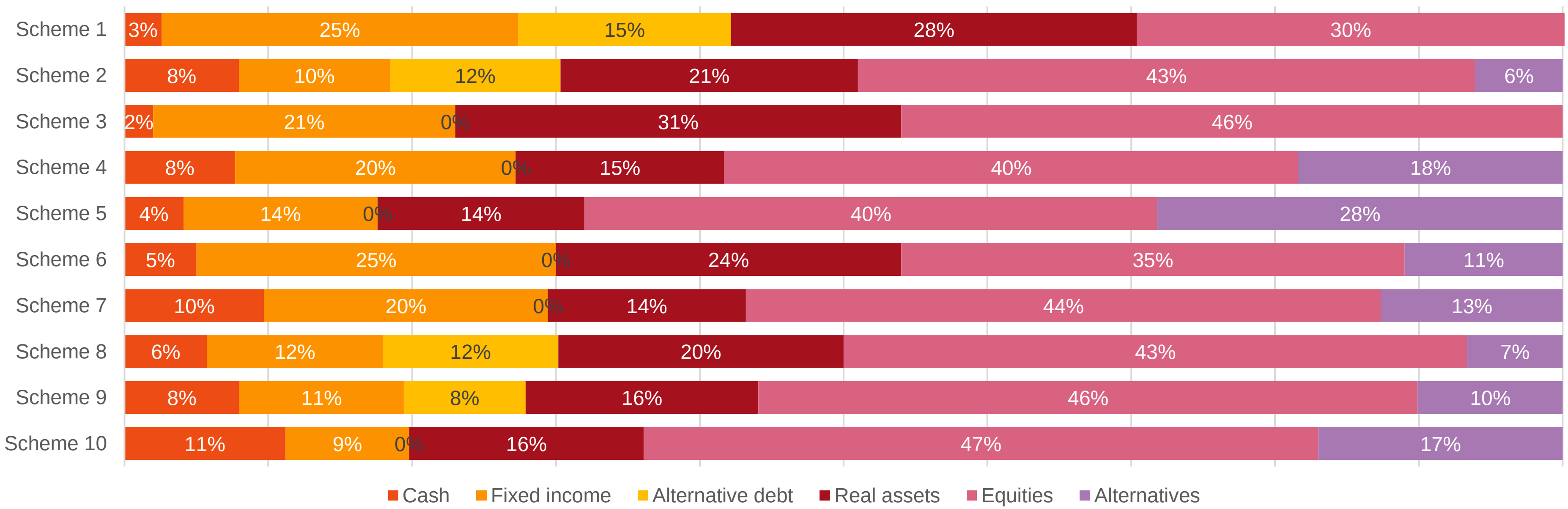
Introduction

Frontier has recently released a comprehensive report spotlighting government insurers for the 2023 financial year. Due to the similarity of their liability profiles, CTP and workers compensation schemes are the focus of this report. We also include the Future Fund in some parts of this report because it is a large government institution and other schemes and institutions show interest in its asset allocation and performance. Our analysis evaluates the performance of each insurer, identifies the nature of their investments, assess their risk appetite, and provides commentary on emerging investment trends that offer valuable forward-looking insights.

In this excerpt, we provide insight into asset allocations. We observed a few major trends to the end of FY23. These include:

- Cash allocations continued to fall, perhaps partly due to the typically net positive cashflow nature of schemes and because deposit rates remained benign for the majority of the last five years. We question if cash allocations will begin to increase with more attractive yields being offered in late 2023 and early 2024.
- Fixed income allocations varied widely across the cohort and may incorporate significant allocations to inflation-linked as well as nominal bonds. The data tells us that traditional fixed income and real asset allocations are close to equal weight.
- For those schemes with lower allocations to real assets, there's evidence to show they have chosen to add alternatives to portfolios for the diversification benefit. Alternatives can include a range of investment strategies including hedge funds, global macro and other liquid alternatives strategies.

2023 asset allocations



The final word

- While most schemes de-risked their investment portfolios in 2022, this was against the longer-term trend of adding growth and mid-risk assets which continued in 2023. In FY23, strong equity markets boosted portfolio values more than offsetting losses in bond portfolios as yields rose. Unlisted infrastructure performed well and continues to experience inflows at the expense of other asset classes (property and equities). During the year, infrastructure valuations stabilised despite rising discount rates and schemes continued to shift their focus towards renewable assets to move towards net zero ambitions.
- With inflation moderating and interest rates likely to ease soon, we anticipate a more normalised environment for insurers with higher passive returns from higher bond yields, lower liability valuations (due to higher discount rates) all based on the premise of a soft landing for the Australian economy. This should result in higher and more stable solvency levels. Frontier believes government insurers will continue to seek out investments across the growth and mid-risk asset groupings for diversification, better long-term solvency and to earn returns above their liability inflation profile.

Want to access the detailed paper?

If you would like to learn more about the research or access the detailed version, please get in touch with you client team.

Frontier Advisors has experience working with a range of government insurers across a number of states and territories helping create diversified portfolios, fit for both the current and future investment environment. Please contact our dedicated LDI & Government Team if you would like more information on how we can help you customise your portfolio.

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