



RATING ACTION COMMENTARY

Fitch Affirms Resolution Life Australasia's 'A' IFS Rating; Outlook Stable

Fri 11 Aug, 2023 - 12:05 AM ET

Fitch Ratings - Sydney - 11 Aug 2023: Fitch Ratings has affirmed Resolution Life Australasia Limited's (RLA) Insurer Financial Strength (IFS) Rating of 'A' (Strong) and Long-Term Issuer Default Rating (IDR) of 'A-', as well as Resolution Life New Zealand Limited's (Resolution Life NZ) 'A' (Strong) IFS Rating and 'A-' Long-Term IDR. The Outlook on the ratings is Stable.

KEY RATING DRIVERS

Core Subsidiary: Fitch regards RLA as a core subsidiary of its ultimate parent, Resolution Life Group Holdings Ltd (RLGH, IDR: BBB/Stable). RLA acts as RLGH's platform for acquiring closed blocks of life insurance liabilities in Australia and New Zealand. We expect RLGH to boost RLA's financial flexibility, while the subsidiary's dividend-paying capacity should support the parent's objectives over the medium term.

Limited Group Synergies: We evaluate RLA based on the Standalone Credit Profile of the Australia and New Zealand operation, given our view of limited synergies with other members of RLGH group. The majority of the board members of RLA and Resolution Life NOHC Pty Ltd - RLA's holding company in Australia - are independent. RLA and Resolution Life NZ are regulated by the Australian Prudential Regulation Authority and the Reserve Bank of New Zealand, respectively. We believe these factors insulate RLA from potential weakness at the wider RLGH group.

We regard Resolution Life NZ as a core subsidiary of Resolution Life NOHC, as it allows RLA to satisfy regulatory requirements for its branch operation in New Zealand.

'Moderate' Company Profile: We rank RLA's company profile as 'Moderate' compared with that of other insurers in Australia, reflecting its 'Moderate' business profile and 'Moderate/Favourable' corporate governance. The ranking considers RLA's large operating

scale, its strategy of managing runoff liabilities in Australia and New Zealand and the inherent execution risk in acquiring and pricing runoff businesses. We believe these risks are reduced by RLA's experience in managing a large number of life insurance products in the two countries.

Market Conditions Support Strategy: Regulatory scrutiny of the life sector in Australia and New Zealand has been high, with regulators intervening to improve sector performance and customer outcomes. Insurers, including RLA, have been redesigning and repricing products and revisiting distribution strategies. We think these dynamics should provide RLA with potential acquisition targets and support its strategy. RLA completed the acquisition of AIA Group Limited's (IDR: AA-/Stable) Australian superannuation and investments business in July 2023.

Solid Capitalisation: We assess RLA's capitalisation as 'Very Strong' based on the strength of the consolidated Australia and New Zealand operation. The group's Fitch Prism Model score was 'Extremely Strong' at end-2022, while coverage of its regulatory prescribed capital amount was high at 3.1x. Our assessment also considers potential risk to capital that could stem from future acquisitions. We expect the absolute capital level to gradually decline as excess capital is returned alongside the runoff of the book. RLA's financial leverage ratio is low (end-2022: 7%).

Sound Earnings: We see RLA's financial performance as 'Strong'. Return on equity and pre-tax return on assets averaged 10% and 0.9%, respectively, in the last three years. Earnings remained stable with a net profit of AUD224 million in 2022 (2021: AUD232 million). The company is improving operational efficiencies, and we believe it will continue to focus on controlling its cost base, as this is a key profitability driver when managing run-off businesses.

Manageable Risky Assets: RLA's investment and asset risks are commensurate with its rating. RLA dynamically adjusts the allocation between defensive and growth assets in line with guaranteed benefit value changes and employs derivative-based protection strategies to limit market volatility exposure. It also maintains a tight match between the duration of its assets and liabilities.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Deterioration in RLA's company profile from increased risk through acquisitions or adverse experience with existing runoff liabilities.
- Substantial drop in capitalisation and leverage metrics on a sustained basis.
- Deterioration in financial performance on a sustained basis.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- An improved view of RLA's company profile, driven by continued success in managing existing runoff liabilities, while successfully executing future runoff transactions.
- Our view of the insurer's capitalisation and leverage as well as financial performance and earnings remaining unchanged.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more

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RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕	PRIOR ↕
Resolution Life Australasia Limited	LT IDR A- Rating Outlook Stable	A- Rating Outlook Stable
	Affirmed	
	LT IFS A Rating Outlook Stable	A Rating Outlook Stable
	Affirmed	
Resolution Life New Zealand Limited	LT IDR A- Rating Outlook Stable	A- Rating Outlook Stable
	Affirmed	
	LT IFS A Rating Outlook Stable	A Rating Outlook Stable
	Affirmed	

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APPLICABLE CRITERIA

[Insurance Rating Criteria \(pub. 21 Jul 2023\) \(including rating assumption sensitivity\)](#)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Prism Factor-Based Capital Model, v1.8.0 (1)

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Resolution Life Australasia Limited

EU Endorsed, UK Endorsed

Resolution Life New Zealand Limited

EU Endorsed, UK Endorsed

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