



## RATING ACTION COMMENTARY

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

Fri 19 Aug, 2022 - 3:34 AM ET

Fitch Ratings - Sydney/Singapore - 19 Aug 2022: 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-'. The Outlook 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 on a standalone basis by considering the credit quality of the Australia and New Zealand operation, given our view of limited synergies with other group members, including US-based Security Life of Denver Insurance Company (IFS: A-/Stable) and Bermuda-based Resolution Re. RLA and Resolution Life NOHC Pty Ltd - RLA's holding company in Australia - have a majority of independent board members and are regulated by the Australian Prudential Regulation Authority and the Reserve Bank of New Zealand.

We believe these factors should insulate RLA from any potential weakness at the wider RLGH group.

**'Moderate' Company Profile:** Fitch ranks 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 run-off 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. We do not expect RLA's recent proposal to acquire part of AIA Group Limited's (AA-/Stable) business to materially change its credit profile.

**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-2021, while coverage of its regulatory prescribed capital amount was high at 2.82x. 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-2021: 6%).

**Sound Earnings:** Fitch sees RLA's financial performance as 'Strong'. Return on equity and pre-tax return on assets averaged 7.6% and 0.7%, respectively, in the last three years. RLA's earnings recovered to a net profit of AUD222 million in 2021, from a loss of AUD139 million in 2018 on large impairments (2020: AUD234 million net profit, 2019: AUD62 million net profit). RLA has strengthened its best estimate assumptions in recent years to reflect the impact of regulatory changes. 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. The risky-asset ratio was 96% at end-2021, driven by equity securities, listed real assets and infrastructure investments backing its participating business. The company dynamically adjusts the allocation between defensive and growth assets in line with the changes in the value of guaranteed benefits, and employs derivative-based protection strategies to limit exposure to market volatility. RLA 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
- Fitch Prism Model score falling to the lower end of 'Very Strong'
- Return on equity falling below 6% for a sustained period.

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**

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This 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. For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg)

## RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕	PRIOR ↕
Resolution Life Australasia Limited	LT IDR    A- Rating Outlook Stable  Affirmed	A- Rating Outlook Stable
	Ins Fin Str    A Rating Outlook Stable  Affirmed	A Rating Outlook Stable

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**APPLICABLE CRITERIA**

[Insurance Rating Criteria \(pub. 16 Jul 2022\) \(including rating assumption sensitivity\)](#)

**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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