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CREDIT OPINION
6 September 2022

Update

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RATINGS

Resolution Life Australasia Limited

Domicile	New South Wales, Australia
Long Term Rating	A3
Type	Insurance Financial Strength
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Resolution Life Australasia Limited

Update to credit analysis

Summary

Resolution Life Australasia Limited's ("Resolution Life") A3 insurance financial strength rating ("IFSR") reflects the company's very strong capitalisation, improving profitability and strong asset-liability management. We expect that the company will continue to maintain very high levels of capital, providing strong support to its credit profile. The company also maintains high levels of liquid assets relative to the liquidity characteristics of its liabilities. In part, the company's liquidity profile benefits from a large block of participating business that is predominantly long dated in nature and in our view has low liquidity requirements. Resolution Life's profitability continues to improve, reflecting higher and more stable experience profits.

Credit strengths

» Very high levels of regulatory capital, well above the minimum regulatory capital requirements.

» Improving profitability.

» Strong asset-liability matching leading to high levels of liquidity.

Credit challenges

» As a closed book of in-force life insurance policies, the company's financial performance is dependent on planned profits to emerge over time from its existing customer base and is therefore sensitive to potential price competition that could lead to elevated levels of policy lapses.

Rating outlook

Resolution Life's outlook is stable reflecting our view that the company will maintain high levels of capital adequacy and will exhibit an improving earnings profile.

Factors that could lead to an upgrade

The ratings could be upgraded if (1) return on capital improves to 8% on a sustainable basis, (2) an increase in capital adequacy such that regulatory capital coverage is above 2.5x.

This report was republished on 7 September 2022 with an updated title of Update to credit analysis from Update following outlook change to stable.

Factors that could lead to a downgrade

The ratings could be downgraded if (1) the profitability of the company's protection products deteriorate, reflected by high experience losses with further strengthening of assumptions behind the best estimate liability, (2) the company reduces capital such that regulatory capital coverage falls below 1.8x, or (3) there is a material increase in the Resolution Life Group's financial leverage to be consistently above 30%.

Profile

Resolution Life, headquartered in Sydney, Australia, is a wholly owned subsidiary of the Resolution Life Group. Resolution Life provides various financial products and services, including income protection and conventional life insurance products.

Detailed credit considerations

Market Position and Brand: Baa - Focus on its customer service in order to preserve its brand and reputation as a closed-life book

As a closed-life book, Resolution Life will see its market share reduce over time as it will receive only recurring premiums on its in-force book. Nonetheless, the company still has a sizeable domestic market position.

Resolution Life is Australia's largest life insurer by gross assets with a dominant market position in legacy superannuation and investment products. In terms of Wealth Protection net policy revenue for 2021, the company was the 7th largest in Australia. However, we believe this measure is conservative as the company cedes a large proportion of its gross premiums to reinsurers and therefore on a gross basis is likely to have a much larger market share than reflected in the regulatory statistics.

In February 2022, Resolution Life announced it would acquire the Superannuation and Investments business of AIA Australia Limited. This acquisition would add c.AUD8.2 billion in assets under management and administration. We believe this acquisition is positive for Resolution Life's domestic Australian franchise, entrenching its market position and the additional scale could lead to future efficiency gains.

Distribution: Baa - Distribution is less relevant, expect more focus on customer service

As a closed life book, Resolution Life does not require distribution to sell new products and would rely heavily on a direct employed workforce to maintain customer service. However, as many products may have been originally distributed through third-party financial advisers, these advisers may still have input in the client relationship with regards to providing financial advice.

Product Focus and Diversification: A - Diversified product offering, with a long tail of participating policies

Resolution Life has three main lines of business; retirement income (participating book), individual risk, and group risk products. The historical performance of the individual risk products has been relatively weak, suffering from high levels of claims and policy lapses in previous years, driving down their profitability.

However these products account for only a small portion of insurance reserves. The company's participating book is much larger. We consider the participating book to be relatively low risk as these policies do not carry guaranteed investment returns, other than capital protection (i.e. protection against negative returns). Crediting rates on this portfolio is determined annually and generally move in line with investment markets. Furthermore, life fund has significant loss absorbing reserves available through the unvested policyholder bonuses. These are discretionary policy bonuses which are yet to be allocated to policyholders and are available to absorb investment market losses in subsequent years.

Asset Quality: A - Significant exposure to high risk assets, but mitigated by hedging strategies and loss absorbing reserves

Resolution Life's high risk assets (as defined by Moody's) are high relative to the company's shareholder capital. A high level of equity investments backing traditional life policies exposes the company to potential equity market volatility, which may negatively impact profitability and capital if investment losses are not shared with the policyholder. However market hedges and loss absorbing reserves provide a strong cushion against potential losses.

Resolution Life actively manages the equity exposure using put options and short futures positions to provide protection from equity market declines. Additionally the company also uses derivatives to protect against changes in long-term interest rates. These hedging strategies provide significant downside protection to both profitability and capital.

The company also has significant loss absorbing reserves available through the unvested policyholder bonuses. These are discretionary policy bonuses which are yet to be allocated to policyholders and are available to absorb investment market losses in subsequent years. We calculate that unvested policyholder bonuses represented c.12% of the company's total life insurance contract liabilities net of reinsurance for fiscal year 2021.

Capital Adequacy: A - Regulatory capital position is very strong and we expect high levels of capital will be maintained over time
Resolution Life has the strongest regulatory capital position amongst the largest Australian life insurance companies with assets over AUD2.0 billion. As at 31 December 2021 Resolution Life held regulatory capital equivalent to 2.82x, which is well above the asset-weighted average regulatory capital cover of 2.25x of the Australian life insurance industry for the same period. We expect the company will continue to maintain very high levels of capital, well above the minimum prescribed capital requirement even as regulatory capital requirements are likely to reduce as its life insurance liabilities mature.

The company's capital position in part benefits from a significant amount of unvested policyholder entitlements and shareholder retained profits within the statutory fund, which can be used to absorb losses and act as a capital buffer for the company's block of participating policies. In addition to its good level of on balance sheet capital, the run-off nature of the its operations and lack of new business strain allows for organic capital generation to provide an additional buffer against stress events.

Profitability: Baa - Earnings likely to stabilize, claims and lapse rates better than plan
Resolution Life's profitability has stabilized with the company reporting AUD222m of net profit for fiscal year 2021 (AUD234m in fiscal year 2020). As experience profits have improved and best estimate assumptions for the company were strengthened as part of Resolution's acquisition of the company in 2020, we believe the risk of further strengthening or experience losses is low. The reinsurance arrangements in place should provide further protection from earnings volatility. The combination of these factors should lead to more stable and predictable profit margins and experience profits over time.

Additionally, the announced acquisition of AIA's Superannuation and Investments will add scale to the company and over time could improve efficiency metrics leading to higher levels of profitability.

Liquidity and Asset-liability Management: A - Good asset-liability matching
Resolution Life holds a significant portion of investments backing its non-linked liabilities in cash, equity securities, and fixed-income instruments, which we consider liquid assets. We consider liquidity to be strong. Liquidity is very high as the company maintains high levels of liquid assets relative to the liquidity characteristics of its liabilities. In part, the company's liquidity profile benefits from a large block of participating business that is predominantly long dated in nature and in our view has low liquidity requirements.

With regard to asset and liability management (ALM), the company has a process that employs interest rate derivatives to manage the duration mismatch between its investment portfolio and insurance liabilities. As a result of its effective derivatives hedging strategy, the net impact from interest movements on the company's earnings and capital is manageable.

Resolution Life measures its liquidity risk estimating the timing of future net cash outflows resulting from insurance contract liabilities. This includes estimated future surrenders, death and disability claims and maturity benefits, offset by expected future premiums or contributions and reinsurance recoveries.

Financial Flexibility: A - Modest financial leverage, with access to capital constrained by private ownership
We assess financial flexibility on the consolidated basis of Resolution Life Group Holdings Ltd.

Resolution Group's financial flexibility is good, supported by moderate financial leverage, good cash interest coverage and strong support from its investor base. The Group's debt is currently held at the various operating entities and intermediate holding companies and is in the form of bank term loan facilities, with the exception of subordinated debt that has been issued by Resolution Life Australasia Limited and surplus notes issued by Security Life of Denver. Over time we expect the Group to adopt a more conventional funding structure, with debt being issued at the holding company level in addition to at individual subsidiaries in some cases.

While the Group maintains strong support from its panel of institutional investors, evidenced by its ability to raise approximately $4.8 billion in equity capital investment since inception, financial flexibility is held back by the Group's lack of track record of accessing public debt and equity markets.

ESG considerations

Social

In line with our general view for the sector, Reesolution Life has a low exposure to Environmental risks and moderate exposure to Social risks. See our Environmental and Social risks heatmaps for further information.

Life insurers have a moderate overall exposure to social risk. Through its insurance operations, Resolution Life faces social risks through the handling of customer information, and the underwriting implications of changing demographics. Demographic and societal trends would impact how insurers manage mortality, longevity and morbidity risks. On the other hand, given it runs a closed book, the impact of changing consumer preferences on distribution channels would not be as relevant for Resolution Life.

Governance

Like all other corporate clients, the credit quality of Resolution Life is influenced by a wide range of governance-related issues, relating to financial, managerial, ownership or other factors, all of which can be exacerbated by regulatory oversight and intervention.

Whilst governance is highly relevant we have no particular concerns regarding governance risks for Resolution Life. The company has established an appropriate risk management and governance framework, with a focus on both financial and non-financial risks. The company has both management and board level committees covering strategic risk, operational risk, insurance risk, liquidity, credit and market risk and operational risk.

Rating methodology and scorecard factors

Exhibit 1

Resolution Life Australasia Limited

Financial Strength Rating Scorecard [1][2]	Aaa	Aa	A	Baa	Ba	B	Caa	Score	Adj Score
Business Profile								A	Baa
Market Position and Brand (15%)								A	Baa
-Relative Market Share Ratio			X						
Distribution (10%)								Baa	Baa
-Distribution Control				X					
-Diversity of Distribution				X					
Product Focus and Diversification (10%)								A	A
-Product Risk		X							
-Life Insurance Product Diversification				X					
Financial Profile								Baa	A
Asset Quality (10%)								Caa	A
-High Risk Assets % Shareholders' Equity							X		
-Goodwill & Intangibles % Shareholders' Equity[3]					X				
Capital Adequacy (15%)								A	A
-Shareholders' Equity % Total Assets			X						
Profitability (15%)								Baa	Baa
-Return on Capital (5 yr. avg.)				X					
-Sharpe Ratio of ROC (5 yr.)					X				
Liquidity and Asset/Liability Management (10%)								Aa	A
-Liquid Assets % Liquid Liabilities		X							
Financial Flexibility (15%)								Aa	A
-Adjusted Financial Leverage[3]		X							
-Total Leverage[3]		X							
-Earnings Coverage (5 yr. avg.)[3]		X							
-Cash Flow Coverage (5 yr. avg.)[3]									
Operating Environment								Aaa - A	Aaa - A
Preliminary Standalone Outcome								A3	A3

[1] Information based on IFRS financial statements as of fiscal year ended December 31, 2021. [2] The Scorecard rating is an important component of the company's published rating, reflecting the standalone financial strength before other considerations (discussed above) are incorporated into the analysis. [3] Information based on US GAAP financial statements of Resolution Life Group Holdings Ltd as of fiscal year ended December 31, 2021.

Source: Moody's Investors Service

Ratings

Exhibit 2

Category	Moody's Rating
RESOLUTION LIFE AUSTRALASIA LIMITED	
Rating Outlook	STA
Insurance Financial Strength	A3

Source: Moody's Investors Service

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CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454