

Research Update:

AMP Life Ltd. Ratings Affirmed At 'A-' On Acquisition By Resolution Life; RLNZ Rated 'A-'; Outlook Negative

June 30, 2020

Overview

- We expect AMP Life Ltd. to maintain its solid creditworthiness under new Resolution Life ownership and effective separation from AMP Ltd.
- We are affirming our 'A-' ratings on AMP Life and 'A-' financial strength rating on AMP Life Ltd. (New Zealand Branch).
- The ratings on AMP Life drive the credit profile of the Resolution Life NOHC Pty. Ltd. subgroup (Resolution Life Australia), as the principal operating entity.
- We are assigning our 'A-' insurer financial strength and issuer credit ratings to Resolution Life New Zealand Ltd. (RLNZ).
- • The ratings on RLNZ reflect its status as a core subsidiary of Resolution Life Australia. We view that the subsidiary will fulfill an integral role as a captive insurer and reinsurer to the subgroup, and as trustee to the asset trust in New Zealand.
- The negative outlook on AMP Life and RLNZ reflects weaker economic conditions under COVID-19, which could lead to higher claims and reserve requirements.

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Rating Action

On June 30, 2020, S&P Global Ratings affirmed its 'A-' ratings on AMP Life Ltd. following completion of its sale to Resolution Life Group Holdings Ltd. (Resolution Life Group; unrated), effective June 30, 2020. At the same time, we assigned our 'A-' insurer financial strength and issuer credit ratings to Resolution Life New Zealand Ltd. (RLNZ) as a core captive insurer and reinsurer to the local subgroup. We withdrew the 'A-' financial enhancement rating on AMP Life at the issuer's request. The outlook on the ratings is negative.

Rationale

The ratings on AMP Life continue to be driven by its strong stand-alone profile, supported by its solid competitive position in the Australian and New Zealand life insurance markets and robust capital resources in excess of A\$2 billion. We expect it to maintain capital and earnings at the upper end of our satisfactory assessment, revised down from our previous assessment as it moves to closed-fund consolidator status under new ownership. Our higher anchor selection of 'a-' reflects a financial profile at the upper end of the satisfactory category, solid regulatory capital metrics, and inherent flexibility ahead of dividend payments. The outlook on AMP Life remains negative, reflecting the potential for downward ratings pressure if worsened economic conditions lead to weakened profitability and capital buffers.

The ratings on AMP Life drive the credit profile of the Resolution Life Australia subgroup, as the principal operating entity and contributor of over 95% of earnings. We would anticipate that further blocks of life business are consolidated into this structure over time, rather than operating as a pure run-off business.

We view AMP Life and the Resolution Life Australia subgroup as delinked and insulated from the wider Resolution Life Group. We view the insulation to be driven by the separate legal structure and regulation under the Australian Prudential Regulation Authority (APRA) and the Reserve Bank of New Zealand (RBNZ). The subgroup has a majority of independent directors, and separate independent directors as trustee with control over the asset trust in New Zealand backing New Zealand policyholder liabilities in the AMP Life Statutory Fund. The subgroup also has a significant minority shareholding of 20% by ASX listed AMP Ltd.

The ratings on RLNZ reflect our assessment of the entity as a core subsidiary of Resolution Life Australia and captive insurer and reinsurer to AMP Life, including the New Zealand branch. The role of RLNZ is largely to enable regulatory oversight by RBNZ and act as trustee to the asset trust.

We assess the credit profile of Resolution Life Australia as 'a-', based largely on the credit profile of AMP Life, the principal operating subsidiary of the subgroup. The subgroup is, in turn, ultimately 80% owned by Bermuda/U.K.-based Resolution Life Group, which does not impact our view of the credit profile of the subgroup given the assessed insulation factors. Resolution Life Group focuses on the acquisition and management of portfolios of life insurance policies through various structures, with capital investors including major financial institutions, insurance companies, and sovereign wealth funds.

Outlook

The negative outlook on AMP Life reflects the potential for downward ratings pressure if worsened economic conditions lead to weakened profitability and capital buffers. Also, we view that there remains investment market pressures and risk that higher reserves may be required due to heightened claims experience and yield curve impacts.

The negative outlook on RLNZ reflects our expectation that it will remain a core subsidiary to Resolution Life Australia with its ratings linked to AMP Life.

Downside scenario

We could lower the ratings on AMP Life over the next two years if its stand-alone credit profile

deteriorates. This could occur if:

- Its capital position weakens, for example, due to capital repatriations greater than expected;
- AMP Life's operating performance weakens materially; or
- The insurer moves into run-off and we no longer view it as a closed-fund consolidator.

We could also lower the ratings on AMP Life if we view Resolution Life Australia to no longer be insulated/delinked from Resolution Life Group.

We could lower the ratings on RLNZ over the next two years if the group credit profile of Resolution Life Australia deteriorates. We could also lower the ratings on RLNZ if its core group status in the subgroup weakens.

Upside scenario

A return to a stable outlook for AMP Life is possible over the next six to 12 months if we forecast its capital position to remain at the upper-end of satisfactory, and operating performance does not materially deteriorate under COVID-19 related economic and claims experience.

If we revise our outlook on AMP Life to stable, we would likely also revise the outlook on RLNZ to stable, assuming RLNZ maintains the same level of strategic importance to the subgroup.

Ratings Score Snapshot

	To	From
Financial strength rating	A-	A-
Anchor	a-	a-
Business risk	Strong	Strong
IICRA	Low Risk	Low Risk
Competitive position	Strong	Strong
Financial risk	Satisfactory	Strong
Capital and earnings	Satisfactory	Strong
Risk exposure	Moderately Low	Moderately Low
Funding structure	Neutral	Neutral
Modifiers		
Governance	Neutral	Neutral
Liquidity	Exceptional	Exceptional
Comparable ratings analysis	0	0
Support	0	0
Group support	0	0
Government support	0	0

IICRA--Insurance Industry And Country Risk Assessment.

Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

New Rating

Resolution Life New Zealand Ltd.

Issuer Credit Rating	
Local Currency	A-/Negative/--
Financial Strength Rating	
Local Currency	A-/Negative/--

Ratings Affirmed

AMP Life Ltd.

Issuer Credit Rating	
Local Currency	A-/Negative/--

AMP Life Ltd.

AMP Life Ltd. (New Zealand Branch)

Financial Strength Rating	
Local Currency	A-/Negative/--

Not Rated Action

	To	From
AMP Life Ltd.		
Financial Enhancement Rating		
Local Currency	NR/--/--	A/--/--

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