Risk

A measured, long-term approach

Risk overview

Risk management is central to everything we do as a life insurance company. It informs how we grow and manage the business, how we give comfort to our policyholders, investors and other stakeholders that we are a safe, responsible insurer that honours promises, and how we deliver stable returns over the long term.

We have a conservative approach to risk that differentiates us from many of our competitors. We manage risk through a clearly defined risk strategy – the choices we make when dealing with risk; and risk appetite which is the level of risk we are prepared to accept in the business.

Our risk strategy can be summarised as follows:

- We will only make acquisitions and do reinsurance deals that are aligned with our business strategy, and where the risk and potential returns are within our risk appetite
- We will manage the businesses we acquire according to those same standards of risk and potential returns

Our business model is made up of several factors that also form part of our risk management strategy and are important for reducing our overall risk, including:

- A geographic focus where we limit ourselves to investments in mature markets: US, Europe, Australia and New Zealand, and parts of Asia
- A sector focus where we only buy or reinsure life, annuity or pension portfolios with established histories and predictable cash flows
- We avoid concentrated risk, where a single event could cause big losses
- We avoid long-term risks linked to variable payouts, such as long-term care
- We stick to things we understand and have expertise in.

Our highly experienced Board sets the risk appetite and approves the risk strategy annually. We express our risk appetite by reference to a number of qualitative statements which capture the outcomes we expect to deliver under different circumstances. These are then re-expressed as tangible limits, set to ensure that actual financial performance is in line with those qualitative statements. These limits determine the target surplus capital we expect within each of our insurance subsidiaries, as well as the acceptable range of value we would expect to deliver to investors in the circumstances of material stress events.

The following considerations underpin our risk appetite:

- Our business plans, which includes our medium-term objectives to grow and transform the business
- Delivering policyholder benefits in a secure, well capitalised and well governed environment
- We aim to return capital over time to institutional investors through a steady dividend and by building a global business through acquiring complementary risks
- Maintaining appropriate capital levels to support our target rating

Across all risk categories, we identify emerging risks and threats as part of our risk identification process. This includes new risks and changes to previously known risks that could increase or create new risk exposures.

We apply and communicate our risk strategy, appetite and policies consistently across the business. Rigorous controls and stress and scenario testing ensure we stay within our defined risks limits. At Group level we are regulated by the Bermuda Monetary Authority (BMA), and we have good relations with them, as we do with regulators in the US, Australia and New Zealand.

Risk overview continued

Changes during the year

There have been significant changes to the business during 2023. We completed new transactions in each of our three platforms. It was our first full year working with Blackstone, which now serves as the General Partner for our investors as well as lead asset manager for certain key areas including private credit, real estate and asset-based finance markets.

These changes have increased our overall risk exposure: however the capital held to support our risk exposure has also grown. There have been modest changes to our risk preferences as a result of these changes, but ultimately the risk profile remains balanced.

Principal risk types

The Group Risk Director works with each functional area of the platforms and their Chief Risk Officers to ensure that we properly identify, assess and manage all material risks. The Group Risk Director updates the risk profile and submits it to the Board's Risk Committee and the Board regularly, as part of the risk report.

Resolution Life has a diversified risk exposure:

- Risks that are actively taken as part of **insurance or asset management** operations which are quantifiable and where capital is held to back the risk exposure. These largely include insurance, market (including investment credit) and counterparty risk. While the Group holds capital for **operational** risk, the key mitigation is strong processes and controls.
- Risks that we don't explicitly hold capital for but that we monitor and control, given their significance. These largely include liquidity (although the Group and platforms hold liquidity cash buffers and have access to revolving credit facilities to ensure that liquidity risk is appropriately managed and mitigated), regulatory and compliance, M&A and transaction, refinancing, strategic and sustainability risk.
- Reputational risk is not considered a separate risk category but rather represents a possible consequence of any risk type, aside from the potential financial and compliance impact.

For more detailed risks, see the Financial Condition Report