S&P Global Ratings

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Storebrand Livsforsikring AS

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Storebrand Livsforsikring AS

SACP* Assessments					SACP*			Support			Ratings
Anchor	bbb+	+	Modifiers	0	=	bbb+	+	0		=	Financial Strength Rating
Business Risk			ERM and Management	0		Liquidity	0	Group Support	0		BBB+/Positive/--
Strong											
Financial Risk			Holistic Analysis	0		Sovereign Risk	0	Gov't Support	0		
Lower Adequate											

*Stand-alone credit profile.
See Ratings Detail for a complete list of rated entities and ratings covered by this report.

Rationale

Business Risk Profile: Strong

- Norwegian life insurer Storebrand Livsforsikring AS (Storebrand) has a sound market position as one of the largest Nordic life and pensions insurers.
- Storebrand's strong competitive position is further bolstered by a robust distribution network that shifts the product portfolio toward capital-light products.
- We assess industry and country risk as intermediate, owing mainly to backbook exposure to traditional Norwegian and Swedish life business, which is facing asset-liability management (ALM) and guarantee risks in a low-yield environment.

Financial Risk Profile: Lower Adequate

- Storebrand's capital adequacy has strengthened toward our 'A' range over the past year on the back of its ongoing shift toward unit-linked products.
- The sustainability of the company's improved capital adequacy has yet to be tested.
- The insurer has a moderate risk position, in our opinion, mainly due to potential volatility in earnings based on a large portfolio of guaranteed pension business and exposure to ALM risk amid prevailing low interest rates.
- It enjoys adequate financial flexibility supported by sound earnings expectations.

Other Factors

We consider Storebrand Bank ASA to be a core subsidiary to the Storebrand group. In particular, our assessment reflects our view of the strategic relevance of the bank's retail business to the group. Storebrand Bank's core status leads us to align the ratings on the bank with our assessment of the unsupported group credit profile for Storebrand group. As such, our ratings on the bank are 'BBB+/A-2'. The outlook is positive.

Outlook: Positive

The positive outlook indicates that we could raise the ratings over the next 24 months if Storebrand's capital adequacy remains moderately strong and the company continues to strengthen its financial risk profile. This could happen via, for example, strong and resilient earnings generation and a continued, successful shift toward capital-light products.

The positive outlook on subsidiary Storebrand Bank reflects that on Storebrand because we view the bank as a core group entity, and so we align the rating with the unsupported group credit profile.

Upside scenario

We could raise the ratings if:

- Storebrand's capital adequacy remains sustainably in the moderately strong range, as measured by our risk-adjusted capital model, possibly supported by less earnings volatility;
- The company retains adequate financial flexibility based on solid earnings; and
- The company defends its strong competitive position and sound market position in Norway.

Downside scenario

We could revise our outlook to stable if Storebrand:

- Fails to maintain its capital adequacy at current levels, which could result from, for example, lower-than-expected retained earnings, higher investment risk, or an overly aggressive dividend payout policy; or
- Reports deteriorated fixed-charge coverage to below 4x, which could stem from, for example, lower-than-expected earnings.

Base-Case Scenario

Macroeconomic Assumptions

- Real GDP growth in Norway of 1.1% in 2017, 1.3% in 2018, and 1.5% in 2019.
- Real GDP growth in Sweden declining to 2.8% in 2017, before dropping further to 2.3% in 2018 and 1.9% in 2019.
- Unemployment rates to remain stable at low levels in Norway (around 4%) and in Sweden (below 7%) until 2019, which supports steady development in private and occupational pensions insurance.
- A continuation of structurally low long-term risk-free rates in the Nordics that only marginally increase over 2017-2019.

Company-Specific Assumptions

- Storebrand to exhibit premium growth of about 1% over 2017-2019, supported by Storebrand's focus on expanding capital light products.
- Storebrand to report annual profits after tax in the Norwegian krone (NOK) 1.2 billion-NOK1.4 billion range in our base-case forecast for 2017-2019.
- Storebrand to pay moderate dividend payments in line with the group dividend policy of about 35%.
- Exposure to ALM risk to decline in the long-run, but no material change over the next two to three years. Also, no material change in asset allocation leads us to anticipate a stable moderate risk position.
- Fixed-charge coverage will remain above 4x, benefitting somewhat from sound earnings expectations, and financial leverage of about 15%.

Key Metrics

	2019f	2018f	2017f	2016	2015	2014	2013
GPW (Mil. NOK)	About 25,600	About 25,300	About 25,100	24,887	24,605	24,540	28,068
Net income (Mil. NOK)	1,200-1,400	1,200-1,400	1,200-1,400	1,520	1,193	1,672	2,003
Return on shareholders' equity (%)	About 5.0	About 5.0	About 5.0	6.4	5.2	7.9	10.6
S&P capital adequacy	Upper adequate	Moderately strong	Moderately strong	Moderately strong	Upper adequate	Upper adequate	Upper adequate
Fixed charge coverage (x)	Greater than 4	Greater than 4	Greater than 4	5.4	4.2*	5.4	5.2
Financial Leverage (%)	About 15.0	About 15.0	About 15.0	20.0	22.0	14.7	16.0

*Based on earnings before longevity reserv strengthening. GPW--Gross premiums written. NOK--Norwegian krona. f--S&P Global Ratings' forecast.

Company Description

One of the largest Nordic life and pensions insurers

Storebrand is a Norway-based life insurance company that offers a broad product range to corporate and retail clients in Norway and Sweden. Corporate pensions remain its key market segment. In 2016, Storebrand reported gross premiums written of NOK24.9 billion and a net income of NOK1.5 billion.

Historically, corporate pensions were mainly defined-benefit schemes, but demand for defined-contribution schemes is increasing, and these products have become key to Storebrand's product strategy, whereas defined-benefit products are in run-off. Retail distribution is organized through intermediaries, call centers, own sales, and the internet.

Established in 1767, Storebrand has its roots in property and casualty (P&C) insurance. However, Storebrand has gradually realigned its strategy on life and pension insurance in Norway. Storebrand group in 2007 acquired Swedish insurer SPP, which also focuses on life and pensions. This move expanded its geographic focus to Sweden. As such, Storebrand Group is one of the largest Nordic life and pensions insurers. SPP's operating entities are owned through Storebrand Holding AB, a Swedish intermediate holding company that is owned by Storebrand.

Storebrand group consists of the holding company Storebrand ASA (BBB-/Positive/--) and its fully owned subsidiaries Storebrand Livsforsikring AS, asset management arm Storebrand Asset Management AS (unrated), Storebrand Bank ASA (BBB+/Positive/A-2), and retail P&C insurer Storebrand Forsikring A/S (unrated). With the exception of life insurance and asset management activities, all operations are currently focused on Norway.

Business Risk Profile: Strong

We regard Storebrand's business risk profile as strong, reflecting the company's position as one of the largest Nordic life and pensions insurers and its sound market position. Our assessment also factors in our view of intermediate industry and country risk in the Norwegian and Swedish life insurance markets.

Insurance industry and country risk: Sound economic environment supports insurance industries in the Nordics, offset by heightened ALM risk

We assess Storebrand's insurance industry and country risk as intermediate. This is based on the company's exposure to the Norwegian (about 70% of gross premiums written) and Swedish (about 30%) life insurance markets. In our view, overall life insurance industry and country risk for both Norway and Sweden is intermediate.

We consider both markets to have significant product risks, including material potential for asset-liability mismatch, heightened given the current low interest rates. Still, we think that both markets are concentrated with only a limited amount of players, benefitting from rather high barriers to entry. Profitability is a neutral factor in our view, earnings has been sound in recent years but also somewhat volatile due to dependence on investment results. The low yields are also a reflection of very low country risk exposure, both in Norway and Sweden.

Table 1

Industry And Country Risk

Insurance sector	IICRA	Business mix (%)
Norway life	Intermediate risk	70
Sweden life	Intermediate risk	30
Weighted average IICRA	Intermediate risk	--

IICRA--Insurance industry and country risk assessment.

Competitive position: Strong, backed by a sound market position and focus on capital-light products, supported by strong relationships with corporate customers

We view Storebrand's competitive position as strong. Storebrand is one of the market leaders (by new business sales and gross premiums written) in Norway. Storebrand has a market share of roughly 18% at end-2016 in terms of overall gross premiums (including existing business), and particular in the Norwegian unit-linked segment a market share of about 30% for some years. Combined with its Swedish subsidiary SPP, Storebrand is one of the largest Nordic life and pension insurer. Storebrand's small-scale non-life insurance and bank businesses provide the company with limited diversification of business lines and revenue sources.

Our assessment is supported by Storebrand's multichannel distribution strategy and strong and stable relationships with corporate customers and organizations, most notably in Norway. We believe this will further underpin the company's sound market position.

Consequently, we believe Storebrand is in a good position to further grow its unit-linked business. Supported by Storebrand's focus on unit-linked products and the run-off of guaranteed products, we anticipate a premium growth of about 1% over 2017-2019. Storebrand has a clear strategy of decreasing its large exposure to insurance products carrying guarantees. This is in line with a pronounced market shift toward defined-contribution schemes, both in Norway and in Sweden, owing to the low-interest-rate environment.

Table 2

Storebrand Livsforsikring AS -- Competitive Position

	--Year ended Dec. 31--				
(Mil. NOK)	**2016**	**2015**	**2014**	**2013**	**2012**
Gross premiums written	24,887	24,605	24,540	28,068	27,355
Change in gross premiums written (%)	1.1	0.3	(12.6)	2.6	7.5
Net premiums written	24,760	24,497	24,464	27,982	27,279
Change in net premiums written (%)	1.1	0.1	(12.6)	2.6	8.6
Reinsurance utilization (%)	0.5	0.4	0.3	0.3	0.3

NOK--Norwegian krone.

Financial Risk Profile: Lower Adequate

We assess Storebrand's financial risk profile as lower adequate. We think the company's capital position has improved toward our 'A' range in recent years, mainly based on its ongoing restructuring of the product portfolio and earnings retentions.

Additionally, under the Solvency II regime, the company's solvency ratio has strengthened and supports our view of its capital adequacy. If Storebrand sustains its capital adequacy at this level, we could revise our assessment of capital and earnings to moderately strong.

Capital and earnings: Upper adequate due to improved capitalization

We regard capital and earnings as upper adequate. In 2016 Storebrand's capital adequacy, as measured by our risk-based capital model, improved toward the 'A' range. Over the past few years, Storebrand's strong earnings generation, with a freeze in dividend payments from 2010 till 2016, has supported its capital position.

However, the guaranteed portfolio constrains Storebrand's capitalization and could hamper the company's capital adequacy, particularly if combined with an adverse economic downturn and material interest rate fluctuations, given its dependence on investment results.

We also note Storebrand's strengthening capitalization in its improving Solvency II ratio, which was 183% for Storebrand Livsforsikring AS (without using transitionals) as of year-end 2016, and 157% for Storebrand group as of year-end 2016. In addition, Storebrand has only about NOK300 million remaining to strengthen its longevity reserves.

We consider that the shift toward defined-contribution schemes and unit-linked products would have a positive impact on the company's capitalization over the medium term. Furthermore, the guaranteed business from SPP was put in run-off in 2016, which has another positive impetus on Storebrand's capitalization. However, we assume that a more pronounced impact on the company's capital is likely to materialize only in the mid to long term period.

Still, Storebrand has a significant portfolio of guaranteed pension business; as of second-quarter 2017, about 63% of its total reserves were guaranteed. Despite Storebrand's efforts to reduce this exposure, these policies will remain a large proportion of its book of business for many years. Furthermore, about half of Storebrand's guaranteed portfolio consists of paid-up policies, which are capital-intensive products with no repricing option and carry an annual guarantee averaging about 3.4% at year-end 2016.

In 2016 Storebrand contributed about NOK1.5 billion (about €161 million) to the overall group result, benefitting from favorable investment results. For 2017-2019, we expect annual net income of about NOK1.2 billion–NOK1.4 billion, and moderate dividend payments in line with the group dividend policy of a payout ratio of about 35%.

Table 3

Storebrand Livsforsikring AS -- Capital					
	--Year ended Dec. 31--				
(Mil. NOK)	**2016**	**2015**	**2014**	**2013**	**2012**
Common equity	23,795	23,693	21,934	20,273	17,502
Change in common equity (%)	0.4	8.0	8.2	15.8	12.9
Total capital (reported)	31,139	31,183	29,258	27,102	24,145
Change in total capital (reported) (%)	(0.1)	6.6	8.0	12.2	8.2

NOK--Norwegian krone.

Table 4

Storebrand Livsforsikring AS -- Earnings					
	--Year ended Dec. 31--				
(Mil. NOK)	**2016**	**2015**	**2014**	**2013**	**2012**
Total revenues *	36,613	34,399	35,675	38,488	41,093
EBIT adjusted§	(12,480)	(4,918)	(22,618)	(9,027)	(6,705)
Net income	1,520	1,193	1,672	2,003	1,033
Return on shareholders' equity (reported) (%)	6.4	5.2	7.9	10.6	6.3

*Reporting basis including unit linked. §Before (un)-realized capital gains/losses. NOK--Norwegian krone.

Risk position: Moderate risk due to potential volatility stemming mainly from the guaranteed portfolio

We continue to regard Storebrand's risk position as moderate, reflecting our view of the elevated risk of volatility in Storebrand's earnings and capital adequacy. Our assessment also reflects the company's dependence on investment performance, particular in the prevailing low-interest-rate environment.

We believe that the risks stemming from the prolonged low interest rates, among others, expose Storebrand's capital adequacy and earnings to increased levels of volatility, due to its large portfolio of guaranteed pension business. We assume that interest rates will remain low for a longer period, which we believe will prolong the potential for volatility in Storebrand's capital and earnings owing to adverse market movements.

Storebrand benefits from a diversified bond portfolio (77% of invested assets in 2016) that has sound average credit quality. Storebrand relies on the yield of its hold-to-maturity (HTM) bond portfolio to reach the required investment return to meet guarantees embedded in its liabilities. The HTM portfolio showed in 2016 a return of about 4%. However, the current new investment yield for this portfolio is somewhat below the average interest rate guarantee. The HTM portfolio's average time of maturity is about 7 years. We assume it is unlikely that Storebrand will achieve equivalent risk-adjusted reinvestment yields in its HTM bond portfolio, which could result in Storebrand having to increase its investment risks, which could in turn weigh on its capital adequacy.

Storebrand has a moderate exposure to equities (6% of total invested assets in 2016) in our view. We believe that the company's constant proportion portfolio insurance strategy helps to manage the equity portfolio and reduces the risk of unexpected high losses.

Table 5

Storebrand Livsforsikring AS -- Risk Position					
	--Year ended Dec. 31--				
(Mil. NOK)	**2016**	**2015**	**2014**	**2013**	**2012**
Total invested assets	307,342	311,965	311,968	302,315	288,250
Net investment income	9,563	7,827	8,962	8,686	12,198
Net investment yield (%)	3.1	2.5	2.9	2.9	4.3
Net investment yield including realized capital gains/(losses) (%)	4.6	5.2	4.7	3.2	6.4
Net investment yield including all gains/(losses) (%)	7.8	3.9	11.1	6.9	7.3
Investment portfolio composition (%)					
Cash and short-term investments	0.9	0.7	1.5	1.2	1.0
Bonds	76.5	80.2	75.8	76.5	76.7
Equity investments	6.3	7.3	11.3	11.5	9.4
Real estate	8.1	8.0	8.8	8.4	10.0
Loans	6.2	1.9	1.5	1.2	1.5
Invetsments in affiliates	0.6	0.5	0.1	0.1	0.1
Other investments	1.4	1.3	1.1	1.2	1.2

NOK--Norwegian krone.

Financial flexibility: Adequate, benefitting from increased earnings

In our view, Storebrand has adequate financial flexibility. Fixed-charge coverage for 2016 increased to 5.4x thanks to improved earnings. In 2016 Storebrand issued additional debt of Swedish krona (SEK) 700 million (about €74 million), with which they partly pre-financed an upcoming maturity of a NOK1.5 billion subordinated bond maturing in 2018. Despite support from more favorable conditions, the additional debt transitionally weighs somewhat on the fixed-charge coverage in 2017. Nonetheless, under our base case, we assume that the fixed-charge coverage will remain above 4x in 2017-2019 benefitting from increasing earnings while interest payments are likely to decline.

Table 6

Storebrand Livsforsikring AS -- Financial Flexibility						
	--Year ended Dec. 31--					
	2016	**2015**	**2014**	**2013**	**2012**	**2011**
Fixed-charge coverage (x)	5.4	4.2*	5.4	5.2	3.6	2.9

Table 6

Storebrand Livsforsikring AS -- Financial Flexibility (cont.)						
	--Year ended Dec. 31--					
	2016	**2015**	**2014**	**2013**	**2012**	**2011**
Financial leverage (%)	20.0	22.0	14.7	16.0	22.0	30.0

*Based on earnings before longevity reserve strengthening.

We regard Storebrand's adequate enterprise risk management (ERM) and satisfactory management and governance as neutral factors for our ratings.

Enterprise risk management: Adequate with a supportive ERM culture

We regard Storebrand's enterprise risk management as adequate.

In our view Storebrand benefits from robust risk management systems, which is well embedded in the company, showing established risk management culture. We consider ERM to be of high importance, reflecting our view of Storebrand's higher exposure towards sizable guaranteed back book with relatively high guaranteed interest rates and exposure to ALM risk.

Management and Governance: Satisfactory based on effective strategy to restructure the product portfolio

We regard management and governance as satisfactory. We believe that Storebrand is adjusting to changing environment and market conditions. This includes in particular the shift in the product mix and active liability management.

Liquidity: Exceptional, reflecting a highly liquid investment portfolio

We regard Storebrand's liquidity as exceptional, thanks to recurring premium cash flows and a liquid investment portfolio. Refinancing risk is manageable, in our view, and we believe the company is capable of handling unexpectedly large claims or an increase in life insurance policy lapses.

Accounting Considerations

We base our analysis of the financial statements of Storebrand Livsforsikring AS, which are prepared in accordance with EU-approved International Financial Reporting Standards.

S&P Global Ratings has made the following adjustments to its risk-based capital model:

- We give partial credit for Norwegian and Swedish capital buffers, such as additional statutory reserves.
- We adjust the risk charges for Norwegian asset-liability matching to reflect the impact of Norwegian legislation and its ability to re-price the premiums.

We classify Storebrand's hybrid debt as having intermediate equity content. We include intermediate equity content hybrid securities, up to a maximum of 25%, when we calculate total adjusted capital, on which we base our analysis of the consolidated risk-based capital of insurance companies.

Related Criteria

- Criteria - Insurance - General: Insurer Hybrid Capital Instruments With Nonviability Contingent Capital (NVCC) Features, July 24, 2014
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Insurance - General: Enterprise Risk Management, May 7, 2013
- Criteria - Insurance - General: Insurers: Rating Methodology, May 7, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Criteria Clarification On Hybrid Capital Step-Ups, Call Options, And Replacement Provisions, Oct. 22, 2012
- Criteria - Insurance - General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Criteria - Financial Institutions - General: Methodology: Hybrid Capital Issue Features: Update On Dividend Stoppers, Look-Backs, And Pushers, Feb. 10, 2010
- Criteria - Financial Institutions - Banks: Assumptions: Clarification Of The Equity Content Categories Used For Bank And Insurance Hybrid Instruments With Restricted Ability To Defer Payments, Feb. 9, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Related Research

- Making Lemonade: Insurers Make Use Of Low Interest Rates To Reduce Debt-Financing Costs, Jan. 26, 2017
- Norwegian Life Insurance Sector Carries An Intermediate Industry And Country Risk Assessment, Nov. 28, 2016
- Sweden's Life Insurance Sector Carries An Intermediate Industry And Country Risk Assessment, Aug. 11, 2016

Ratings Detail (As Of September 8, 2017)	
Operating Company Covered By This Report	
Storebrand Livsforsikring AS	
Financial Strength Rating	
Local Currency	BBB+/Positive/--
Counterparty Credit Rating	BBB+/Positive/--
Junior Subordinated	BBB-
Related Entities	
Storebrand ASA	
Issuer Credit Rating	BBB-/Positive/--
Storebrand Bank ASA	
Issuer Credit Rating	BBB+/Positive/A-2
Domicile	Norway

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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