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Research Update:

Norwegian Life Insurer Storebrand Livsforsikring AS Outlook Revised To Positive; 'BBB+' Ratings Affirmed

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Overview

- We believe Storebrand Livforsikring AS's (Storebrand's) capital adequacy continues to strengthen, particularly from strong earnings in the Norwegian occupational pension business.
- If capital adequacy remains sustainably at current levels, we could improve our assessment of capital and earnings.
- We are therefore revising our outlook on Storebrand and its banking subsidiary, Storebrand Bank, to positive from stable and affirming our 'BBB+' ratings on both companies.
- The positive outlook indicates that we could raise the ratings over the next 24 months if Storebrand maintains capital adequacy in the moderately strong range and continues to strengthen its financial risk profile and earnings.

Rating Action

On July 25, 2017, S&P Global Ratings revised its outlook on the members of the Norway-based Storebrand group--life insurer Storebrand Livsforsikring AS and Storebrand Bank ASA--to positive from stable. At the same time, we affirmed our 'BBB+' long-term counterparty credit ratings on both companies.

We also affirmed our 'A-2' short-term rating on Storebrand Bank.

In addition, we revised our outlook on the group's non-operating holding company, Storebrand ASA, to positive from stable and affirmed our 'BBB-' counterparty credit rating on the company.

Rationale

The outlook revisions reflect our view that Storebrand's capital positon and earnings generation capacity have improved in recent years. Although the amount of guarantees in Storebrand's backbook is still significant, we believe the company is making progress in shifting its product portfolio toward more capital-light products, such as unit-linked products, which will eventually lead to lower capital needs. Because of its strong position in the Norwegian occupational pension market, we believe Storebrand will benefit from rising earnings and further increased capital. However, for us to consider an upgrade, we would need to see that Storebrand's capital position is sustainable at current levels, possibly supported by stable and strong inflow of capital-light products.

Storebrand's capital adequacy, as measured by our risk-based capital model, improved to the moderately strong range in 2016. We believe this reflects the company's shift toward defined contribution schemes and unit-linked products. Storebrand's capital position has been further bolstered by its strong earnings generation. For example, in 2016 Storebrand contributed about Norwegian krone (NOK) 1.5 billion to the overall group result, benefitting from sound margins from unit-linked products and from favorable investment results. For 2017-2019, we expect annual net income of about NOK1.2 billion–NOK 1.4 billion. The strong operating performance--combined with the beneficial multichannel distribution strategy--is a key element of Storebrand's overall strong competitive position and business risk profile, in our view.

In addition, Storebrand has only about NOK300 million remaining to strengthen its longevity reserves. The positive trend of strengthening capitalization is further supported by its improving Solvency II ratio, which was 183% (without using transitionals) as of year-end 2016.

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 one-third 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. The guaranteed portfolio relies on Storebrand's capitalization and could hamper the company's capital adequacy, particularly when combined with an adverse economic downturn, given its dependence on investment results. To reflect this uncertainty, we have maintained our assessment of Storebrand's capital and earnings at upper adequate, its risk position at moderate, and--consequently--its financial risk profile at lower adequate.

Storebrand's strong business risk profile and lower adequate financial risk profile lead to an anchor of 'bbb+'. We align the rating with the anchor, as we view all of the potential modifying factors--enterprise risk management (ERM), management and governance, and liquidity--as neutral to the ratings.

Outlook

The positive outlook indicates that we could raise the ratings over the next 24 months if Storebrand's capital adequacy remains sustainably in the moderately strong range and 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;
- Its 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 back 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 aggressive dividend payout policy; or
- Storebrand's fixed-charge coverage deteriorated below 4x, which could stem from, for example, lower-than-expected earnings.

Ratings Score Snapshot

Financial Strength Rating	BBB+/Positive	BBB+/Stable/--
Anchor	bbb+	bbb+
Business Risk Profile	Strong	Strong
IICRA	Intermediate Risk	Intermediate Risk
Competitive Position	Strong	Strong
Financial Risk Profile	Lower Adequate	Lower Adequate
Capital & Earnings	Upper Adequate	Upper Adequate
Risk Position	Moderate Risk	Moderate Risk
Financial Flexibility	Adequate	Adequate
Modifiers	0	0
ERM and Management	0	0
Enterprise Risk Management	Adequate	Adequate
Management & Governance	Satisfactory	Satisfactory
Holistic Analysis	0	0
Liquidity	Exceptional	Exceptional
Support	0	0
Group Support	0	0
Government Support	0	0

IICRA--Insurance Industry And Country Risk Assessment.

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

Ratings List

Outlook Action; Ratings Affirmed

	To	From
Storebrand Livsforsikring AS		
Counterparty Credit Rating	BBB+/Positive/--	BBB+/Stable/--
Financial Strength Rating		
Local Currency	BBB+/Positive/--	BBB+/Stable/--
Junior Subordinated	BBB-	BBB-
Storebrand Bank ASA		
Counterparty Credit Rating	BBB+/Positive/A-2	BBB+/Stable/A-2
Storebrand ASA		
Counterparty Credit Rating	BBB-/Positive/--	BBB-/Stable/--

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.