

Research Update:

# Storebrand Livsforsikring Upgraded To 'A' On Ongoing Profitable Growth And Improved Financial Strength; Outlook Stable

June 14, 2022

## Overview

- In 2021, Storebrand continued to profitably grow and diversify its business, supporting the build-up of capital and reserving buffers.
- At the same time, the group has demonstrated resilience of capital and earnings to external stresses through disciplined capital management and strategic execution.
- We raised our long-term issuer credit and insurer financial strength ratings on Storebrand Livsforsikring AS to 'A' from 'A-' and the long term issuer credit rating on Storebrand ASA to 'BBB+' from 'BBB'.
- We also raised the tier 2 subordinated issue ratings to 'BBB+' from 'BBB' and the additional tier 1 (AT1) issue rating to 'BBB' from 'BBB-'.
- The stable outlook reflects our expectation that Storebrand will continue to maintain its capital and balance sheet strength and profitable growth in diverse operations.

## Rating Action

On June 14, 2022, S&P Global Ratings raised its long-term issuer credit and insurer financial strength ratings on Storebrand Livsforsikring to 'A' from 'A-' and the long-term issuer credit rating on Storebrand ASA to 'BBB+' from 'BBB'. The outlook is stable.

We also upgraded the tier 2 subordinated issue ratings to 'BBB+' from 'BBB' and the AT1 issue rating to 'BBB' from 'BBB-'.

## Rationale

The upgrade reflects the improvement in Storebrand's financial profile and resilience, and execution on its strategic vision to profitably grow and diversify its operations. As the group

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continues its pivot to capital-light business for future growth and earnings, the guaranteed pension business has been steadily declining and now makes up about half of total reserves, comparing favorably with some continental European peers. Nonguaranteed operations now contribute to more than 60% of profits and more than 70% of assets under management (AUM), and the shift in business mix has helped reduce the solvency position's sensitivity to interest rate movements. We expect the group will maintain strong reserve buffers in the guaranteed book, which have been shored up to Norwegian krone (NOK) 20 billion for the Nordic guaranteed book and Swedish krona 15 billion for the Swedish guaranteed book. That said, we note that positive markets in 2021 also contributed to the increase. We anticipate that Storebrand will continue to demonstrate at least 'AA' level capital adequacy on our model and prudently manage its asset risk exposure.

The rating action also reflect the strong strategic execution in delivering profitable growth and increasing the diversity and market position of operations. The group is one of the top private defined contribution pension provider in Norway and Sweden and continues to expand into retail markets and public sector pensions. It is also one of the top five asset managers in the Nordics and external AUM account for 56% of the total NOK1,097 billion at year-end 2021.

The group intends to initiate a NOK500 million share buyback program and maintains its policy of a dividend payout ratio of more than 50%, given that the Q1 2022 solvency ratio of 184% is above its target range. However, we expect the group will remain disciplined in its approach to capital management by maintaining the strength and resilience of the balance sheet, particularly since ongoing market turmoil and economic uncertainty in 2022 could weaken asset risk and earnings.

## **Outlook**

### **Downside scenario**

We could lower the ratings over the next two years if the group's capitalization drops for an extended period to below our 'AA' range, for example because of higher-than-expected dividend payments, material investment, or operating losses. We could also lower the ratings if we note a material and sustained deterioration in operating earnings or premium income that weaken the group's competitive profile.

### **Upside scenario**

Although a remote possibility, we could raise the ratings if we observe a material and sustainable improvement in the balance sheet strength, such as stronger capital adequacy levels, or if the group demonstrates a stronger business position versus peers, such as materially stronger operating performance.

## **Environmental, Social, And Governance**

ESG credit indicators: E-2, S-2, G-2

## Ratings Score Snapshot

### Ratings Score Snapshot -- Storebrand ASA

	To	From
Issuer credit rating	A	A-
Business Risk Profile	Strong	Strong
Competitive Position	Strong	Strong
Insurance industry and country risk assessment	Intermediate	Intermediate
Financial Risk Profile	Strong	Satisfactory
Capital and Earnings	Strong	Strong
Risk Exposure	Moderately Low	Moderately High
Financial Funding	Neutral	Neutral
Liquidity	Exceptional	Exceptional
Anchor	a	a-

The anchor selection is based on the diversity and profitable growth of operations and financial strength versus peers.

### Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

## Ratings List

### Upgraded

	To	From
<b>Storebrand ASA</b>		
Issuer Credit Rating	BBB+/Stable/--	BBB/Stable/--
<b>Storebrand Livsforsikring AS</b>		
Issuer Credit Rating	A/Stable/--	A-/Stable/--
Financial Strength Rating		
Local Currency	A/Stable/--	A-/Stable/--

Upgraded

	To	From
<b>Storebrand Livsforsikring AS</b>		
Subordinated	BBB+	BBB
Subordinated	BBB	BBB-
Junior Subordinated	BBB+	BBB

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