Research Update:

Norwegian Insurer Storebrand Ratings Affirmed At 'A-'; Outlook Stable

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Overview

- Norwegian Storebrand Group (Storebrand) is one of the largest life and pension insurers in the Nordics, with a leading position in the Norwegian occupational pension market.
- In our view, Storebrand enjoys very strong capitalization according to our risk-based capital model, offset somewhat by softer forms of capital and significant portfolio of guaranteed pensions business.
- We are affirming our 'A-' ratings on Storebrand's core subsidiary Storebrand Livsforsikring AS. The ratings on other core subsidiary Storebrand Bank ASA remain 'A-/A-2'.
- The stable outlooks reflect our expectation that Storebrand will safeguard its strong competitive position in the Norwegian life insurance market, and maintain capitalization in the 'AA' range.

Rating Action

On July 23, 2019, S&P Global Ratings affirmed its 'A-' long-term insurer financial strength and issuer credit ratings on Storebrand Group's (Storebrand's) core subsidiary Storebrand Livsforsikring AS. The ratings on Storebrand Bank ASA, Storebrand's other core subsidiary, remain at 'A-/A-2'. We also affirmed our 'BBB+' issuer credit rating on the group's holding company Storebrand ASA. The outlook on these entities is stable.

Outlook

The outlook is stable because we expect Storebrand will be able to defend its strong position in the Norwegian life and pension market, particularly in the occupational sector. We also anticipate that Storebrand's capitalization will remain in the 'AA' range according to our capital model.

The stable outlook on Storebrand Bank reflects our view of the bank's core status within the Storebrand Group, and our expectation that the group would provide support to the bank if necessary. Any rating action on the Storebrand Group would result in a similar action on

Storebrand Bank.

Upside scenario

We view an upgrade as remote over the next two years. However, we could raise the ratings if potential capital and earnings volatility stemming from the group's exposure to guaranteed liabilities and high-risk assets decreases; and if the group's reliance on softer form of capital declines. An upgrade would also depend on Storebrand maintaining its strong market position.

Downside scenario

While unlikely at this stage, we could lower the ratings if the group's capitalization dropped for a prolonged period to below our 'AA' range. This could be triggered by, for example:

- very aggressive dividend payouts or large share buybacks;
- a material decline in the group's capital buffers or large investment losses, triggered by a market downturn, for example; or
- a large acquisition that could erode the group's capital position.

Rationale

The ratings reflect our view of Storebrand's leading position in the Norwegian occupational pension market. We believe the group's capitalization will remain in the 'AA' range, and a key rating strength. However, a high amount of softer forms of capital, and its still significant guaranteed back-book, albeit declining, partly offsets this.

We anticipate Storebrand will maintain its strong position in the Norwegian life insurance market, benefitting from its strong brand recognition and long-standing expertise in the occupational pension market. Furthermore, we believe Storebrand benefits from a diversified business and earnings mix, particularly via the group's asset management business. We believe the recent acquisition of Cubera Private Equity AS, and the acquisition of Skagen AS in 2017, will further enhance asset management operations.

We expect Storebrand will maintain capitalization in the 'AA' range according to our capital model over the next two-to-three years. This is supported by our assumption of net income of at least Norwegian krone 2 billion annually over this period, fueled by the group's continued shift to capital-light products, on-going growth in the unit-linked segment, and solid income streams from the asset management business. We also assume an annual dividend payout ratio of about 50%-65%. Our view of the group's capitalization is somewhat constrained by the group's capital reliance on softer forms of capital, such as policyholder or hybrid capital.

From our perspective, Storebrand continues to face interest rate risk, based on its still-material portfolio of guaranteed pensions business, despite its shift to capital-light products. As of second-quarter 2019, about 57% of its total reserves carry an average guarantee of just below 3%, although we acknowledge that the 10-year government bond yield in Norway is higher than in other European markets. Nevertheless, in our view, the guaranteed portfolio could lead to volatility in the group's capital and earnings.

Ratings Score Snapshot

Business Risk Profile	Strong
Competitive position	Strong
IICRA	Intermediate Risk
Financial Risk Profile	Satisfactory
Capital and earnings	Strong
Risk exposure	Moderately high
Funding structure	Neutral
Anchor*	a-
Modifiers	
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0
Financial Strength Rating	A-

*This is mainly influenced by our view of Storebrand's leading position in the occupational pension business in Norway, its sound profitability compared to its peers, and its very strong capitalization according to our capital model.

Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- 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

Ratings Affirmed	
Storebrand Livsforsikring AS	
Issuer Credit Rating	A-/Stable/--
Financial Strength Rating	A-/Stable/--
Storebrand ASA	
Issuer Credit Rating	BBB/Stable/--
Storebrand Livsforsikring AS	
Subordinated	BBB

Ratings Affirmed

Junior Subordinated	BBB

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.capitaliq.com. All ratings affected by this rating action can be found on 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.