

Research Update:

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

July 30, 2020

## Overview

- In our view, leading Norwegian life and pension insurer Storebrand's capitalization is very strong, offset somewhat by the large number of softer forms of capital and its substantial portfolio of guaranteed pensions business.
- We believe Storebrand can absorb financial market turbulence, such as that caused by the COVID-19 pandemic.
- We are therefore affirming our 'A-' issuer credit ratings on Storebrand's subsidiaries Storebrand Livsforsikring AS and Storebrand Bank.
- The stable outlook reflects our expectation that Storebrand will maintain its strong competitive position in the Norwegian life insurance market, and maintain a capitalization in the 'AA' range.

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## Rating Action

On July 30, 2020, S&P Global Ratings affirmed its 'A-' long-term insurer financial strength and issuer credit ratings on Storebrand Group's core subsidiaries Storebrand Livsforsikring AS and Storebrand Bank. In addition, we affirmed our 'BBB' rating on Storebrand Livsforsikring AS' subordinated debt.

We also affirmed our 'BBB' issuer credit rating on the group's holding company Storebrand ASA.

The outlooks are stable.

## Rationale

The affirmation reflects our view of Storebrand's leading position in the Norwegian occupational pension market and its very strong capitalization. However, this is somewhat offset by the dependency on softer forms of capital like policyholder and hybrid capital, and its back-book's substantial exposure to guaranteed pension business, although this is declining.

We believe Storebrand will preserve its strong position in the Norwegian life insurance market, benefitting from its strong brand and long-standing expertise in the occupational pension market.

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We also believe Storebrand benefits from a diversified business and earnings mix, particularly via the group's asset management. Additionally, the decision to re-enter the Norwegian municipal occupational pension market, estimated to be twice the size of the corporate pension market, could mean further business diversification.

We believe Storebrand will retain capitalization in the 'AA' range according to our capital model over the next two-to-three years. This is underpinned by our assumption of net income of at least Norwegian krone (NOK) 1.5 billion–NOK2.0 billion annually over the same period. However, we expect depressed investment results stemming from COVID-19-related turmoil in the first quarter will hamper income in 2020. According to our capital model, Storebrand's capitalization was resilient against the impact of COVID-19 thanks to the group's strong capital buffers. The regulatory capital adequacy based on Solvency II stood at 176% at the end of 2019, but weakened to 163% as per second-quarter 2020 as a result of decreased interest rates and adverse development in equities and credit markets. However, we understand that Storebrand is committed to keeping its Solvency ratio at 150%-180%. We therefore consider the risk of mandatory deferral to be remote and we do not consider it necessary to deduct a further notch from the rating on the outstanding subordinated notes.

We expect Storebrand's dividend payout ratio will remain at 50%-65% in normal market circumstances. Despite its shift to capital-light products, we expect Storebrand will continue to face interest rate risk, based on its still substantial portfolio of guaranteed pensions business. As of second-quarter 2020, guaranteed reserves were about 54% of its total reserves. The average guaranteed rate is about 3.2% in Norway and about 2.9% in Sweden. We acknowledge that the 10 year government bond yield in Norway is higher than in other European markets. However, the yield decreased significantly during 2019 and first half 2020. That said, we believe the guaranteed portfolio could lead to volatility in the group's capital and earnings.

## Outlook

The outlook is stable because we expect that Storebrand will 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 maintenance of Storebrand's strong market position.

## Downside scenario

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

- Very aggressive dividend payouts or large share buybacks;

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- 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.

## Ratings Score Snapshot

### RSS Table

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

\*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: Group Rating Methodology, 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

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\*\*\*\*\*Storebrand ASA\*\*\*\*\*

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**Ratings Affirmed**

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**Storebrand ASA**

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Issuer Credit Rating	BBB/Stable/--
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**Storebrand Bank ASA**

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Issuer Credit Rating	A-/Stable/A-2
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**Storebrand Livsforsikring AS**

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Issuer Credit Rating	A-/Stable/--
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Financial Strength Rating	
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Local Currency	A-/Stable/--
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**Storebrand Livsforsikring AS**

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Subordinated	BBB
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Junior Subordinated	BBB
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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](http://www.standardandpoors.com) for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at [https://www.standardandpoors.com/en\\_US/web/guest/article/-/view/sourceId/504352](https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352) Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://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.

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