

# RatingsDirect®

---

## Storebrand Group

**Primary Credit Analyst:**

Andreas Lundgren Harell, Stockholm + 46 8 440 5921; andreas.lundgren.harell@spglobal.com

**Secondary Contact:**

Mark D Nicholson, London (44) 20-7176-7991; mark.nicholson@spglobal.com

### Table Of Contents

---

Credit Highlights

Outlook

Key Assumptions

Business Risk Profile

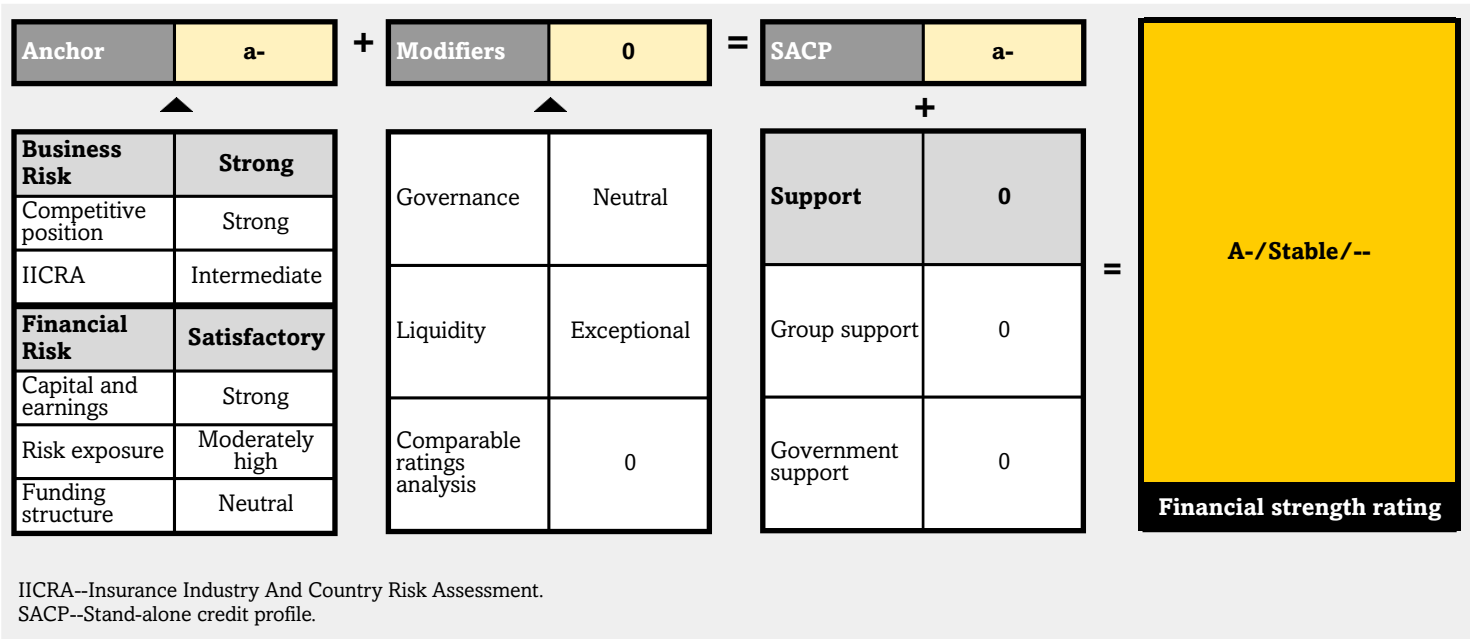
Financial Risk Profile

Other Key Credit Considerations

Related Criteria

Appendix

# Storebrand Group



## Credit Highlights

### Overview

#### Strengths

A leading Nordic life and pension insurer with a strong footprint in the Norwegian pension market, benefitting from well-established relationships with key corporate clients in Norway.

Very strong capitalization measured by S&P Global Ratings' risk-based capital model.

#### Risks

Somewhat reliant on softer forms of capital.

Substantial portfolio of guaranteed pensions business, although declining, which could lead to capital and earnings volatility.

**We believe Storebrand will preserve its position as one of the top life insurers in the Nordics.** Storebrand has a strong position in the Norwegian life insurance market, benefitting from its strong franchise, brand reputation, and long-standing expertise particularly in the Norwegian occupational pensions market, where it is the market leader. The group's expanding asset management activities enhance diversification, developing its overall market position. Additionally, the decision to re-enter the Norwegian municipal occupational pension market could lead to further diversification, in our opinion.

**We expect Storebrand's sound earnings generation to last.** Storebrand has successfully implemented a clear strategy to shift to capital-light products like unit-linked products, the main source of its overall earnings accounting for about 45% of profit in 2019. The group also benefits from its strong position in asset management which historically has witnessed healthy growth.

**We believe Storebrand's capitalization will remain very strong.** The group's clear shift to capital-light products and its healthy earnings generation support its very strong capitalization, as measured by our risk-based capital model, despite the COVID-19-related market turbulence. However, we believe the group's capitalization is somewhat constrained by its dependency on softer forms of capital. Consequently, we view this as key rating strength that we express in our choice of anchor for the ratings.

## Outlook: Stable

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 pensions 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 Storebrand's exposure to guaranteed liabilities and high-risk assets decreases, and 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, for example, by:

- Very aggressive dividend payouts or large share buybacks;
- A material decline in the group's capital buffers or large investment losses, such as triggered by an even more substantial market downturn than with COVID-19; or
- A large acquisition that erodes the group's capital position.

## Key Assumptions

- In Norway and Sweden, we anticipate negative economic growth owing to the pandemic situation around the globe. We forecast negative GDP growth of about -6.2 for both Norway and Sweden, and a relatively high unemployment rate with inflation rates of around 1.5% and 0.8% for Norway and Sweden, respectively.
- We expect long-term interest rates to remain low in 2020-2022.

## Storebrand--Key Metrics

	2022f	2021f	2020f	2019	2018	2017	2016	2015	2014
S&P Global Ratings capital adequacy	Strong	Strong	Strong	Strong	Strong	Strong	Moderately strong	Upper Adequate	Upper Adequate
Gross premiums written (Mil. NOK)	>35,000	>35,000	>35,000	32,393	29,670	26,719	25,971	25,577	25,304
Net premiums written (Mil. NOK)	>35,000	>35,000	>35,000	32,366	29,631	26,652	25,829	25,460	25,220

**Storebrand--Key Metrics (cont.)**

	<b>2022f</b>	<b>2021f</b>	<b>2020f</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Net income (Mil. NOK)	>2,000	>2,000	1,500-2,000	2,082	3,697	2,406	2,142	1,383	2,084
Return on shareholders' equity (%)	>7	>7	~5-7	6.28	11.61	8.23	7.85	5.35	8.77
Return on assets (%)	>0.45	>0.45	>0.4	0.49	0.55	0.53	0.56	(0.02)	0.64
Net investment yield (%)	>4	>4	>4	16.15	0.39	9.41	8.39	4.21	-
Fixed charge coverage (x)	>7	>7	>7	10.0	10.0	7.7	8.8	0.9	7.6
Financial leverage (%)	>19	>19	>19	21.0	20.0	22.2	21.2	22.4	22.8
Financial obligations to EBITDA	>2	>2	>2	2.4	2.2	2.5	2.1	25.0	2.1

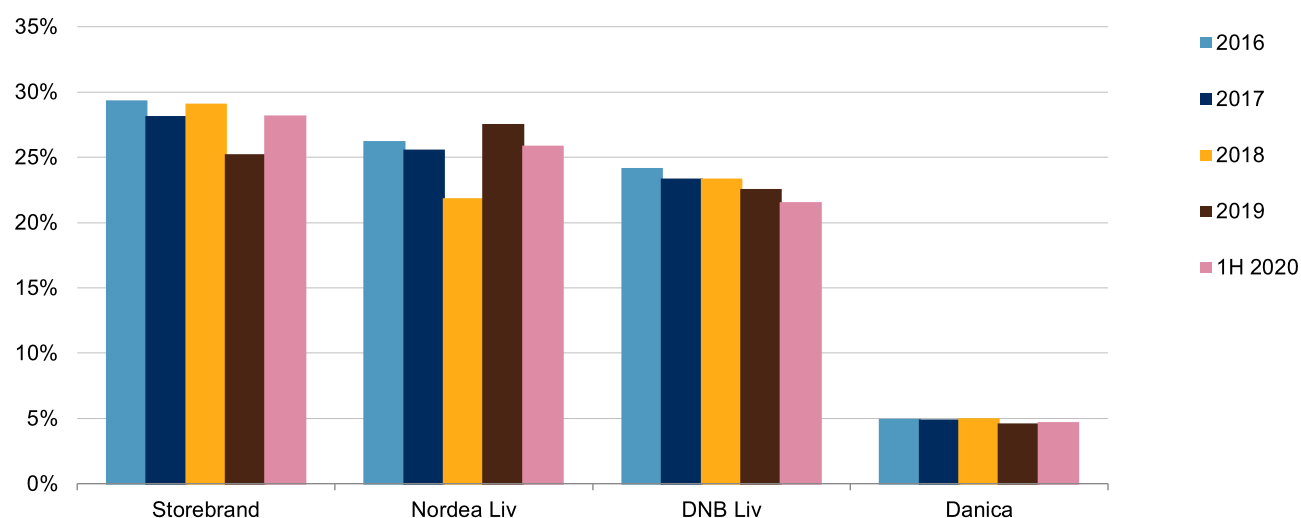
f--Forecast (S&P Global Ratings' base-case assumptions). NOK--Norwegian krona. The assessment for S&P Global Ratings capital adequacy for 2014-2016 reflects the rating scores under the previous insurance criteria framework. As per the new insurance criteria framework published on July 1, 2019, we base our financial leverage on total shareholders equity (Financial obligations/[reported equity + financial obligations]) financial leverage and S&P Global Ratings capital adequacy for 2016-2013 based on Storebrand Liv.

**Business Risk Profile: Strong**

In our opinion, Storebrand--together with its Swedish subsidiary SPP--benefits from a market-leading position in the Nordic life and pension insurance sector, alongside KLP, DNB, Danica, and Nordea. Particularly in the Norwegian unit-linked segment, Storebrand has been able to retain its top position, with a market share of about 28%, which we do not anticipate will change substantially over the medium term.

Chart 1

## Market Share In The Norwegian Unit-Linked Segment



H--Half. Source: Norwegian Insurance Association

Copyright © 2020 by Standard & Poor's Financial Services LLC. All rights reserved.

In 2019, gross premium income increased by about 9.5% to Norwegian krone (NOK) 32.4 million (NOK 29.6 million in 2018) and third quarter result witness a continued strong growth.

We believe Storebrand's well-recognized brand, long-standing expertise in the occupational pensions market, and stable relationships with large Norwegian corporate entities will remain key competitive advantages. Moreover, we acknowledge SPP's strong growth track in recent years with respect to new sales and transfers. Storebrand's rated small non-life insurance and bank businesses provide additional diversification of business lines and income streams, albeit to a lesser extent than for DNB, Danica, or Nordea Liv, which are part of larger, regional banks and benefit from their support and services.

Though, we note Storebrand successfully re-entered the Norwegian municipal occupational pension market in 2020. During the third quarter, Storebrand had its first breakthrough as becoming the new provider of public service pensions for Vestland Fylkeskommune. This means around NOK3.7 billion in AuM and NOK245 million in annual premiums will be transferred as of Jan. 1, 2021. Additionally, we note Storebrand has entered into an agreement with Insr Insurance Group ASA (Insr) to acquire specific insurance portfolios from Insr and, by this, potentially adding about 2% market share within property and casualty insurance. We expect the transferral of customers from Insr to Storebrand will take place gradually and should commence before the end of 2020. The transaction has been approved by competition authority and Norwegian FSA. We believe the above mentioned will support Storebrand's market position as well as provide further diversification to the group.

In response to the continued low-interest-rate environment, Storebrand has a clear strategy of decreasing its large

exposure to insurance products carrying guarantees. Consequently, the group is focusing on unit-linked products that provide a substantial income stream to the group (making up 45% of overall earnings in 2019, compared with 15% in 2012). Moreover, we regard Storebrand's asset management as a meaningful earnings generator, of which roughly two-thirds of the assets under management stem from the internal insurance business, and the remainder from the external business. We understand that Storebrand intends to further develop its asset management because scale is an important factor due to fierce competition and margin pressure.

## Financial Risk Profile: Satisfactory

We believe the shift toward capital-light products supports the sustained improvement of Storebrand's capitalization and earnings capacity. 2019 was another good year for Storebrand, as the group reported a strong financial result, delivering a net income of about NOK2 billion. Storebrand's results as of Sept. 30, 2020, showed solid net income of about NOK1.5 billion, supported by healthy earnings from the unit-linked segment. This is broadly in line with our net income forecast of at least NOK1.5 billion-NOK2.0 billion annually over 2020-2022. Combined with an annual dividend payout ratio of about 50%-65% in normal market circumstances, we expect that the group's capitalization will remain robust in the 'AA' range (measured by our risk-based capital model) over 2020-2022. That said, we expect depressed investment results stemming from COVID-19-related turmoil in the first quarter will somewhat 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. Additionally, the regulatory capital adequacy based on Solvency II stood healthy at 176% at the end of 2019, and it further improved to 179% as of third-quarter 2020, as a result of contractions in credit spreads and increased equity prices, as well as repricing measures in guaranteed business. We note the board of Storebrand decided to withdraw the proposed dividend for the financial year of 2019. This was in line with the expectations of Norwegian FSA, Norwegian Ministry of Finance, and EIOPA, and as a result of the COVID-19 turmoil.

We note that Storebrand's capital relies to some extent on softer forms of capital, such as policyholder or hybrid capital. This somewhat constrains our overall assessment of the group's capital and earnings to 'strong' rather than 'very strong'. Moreover, we believe Storebrand remains exposed to interest rate risk, due to its still-significant portfolio within the guaranteed pensions business, particularly in the prevailing low-interest-rate environment. As of the third-quarter of 2020, guaranteed reserves were about 52% of its total reserves, and carried an average guarantee of about 3%. It will take many years until the guarantee amount in these policies decreases, despite Storebrand's efforts to reduce this exposure. We consider that the guaranteed portfolio could lead to volatility in the group's capital and earnings. On the other hand, credit quality remains high, with investments at the 'AA' level on average, Storebrand has also continued to build buffer capital to be able to mitigate any volatility.

In our view, Storebrand has adequate access to capital through the equity and bond markets. For example, in 2020, the group effectively issued a new subordinated debt of NOK500 million. We expect Storebrand to maintain prudent financial leverage and favorable fixed-charge coverage over 2020-2022 following our earnings forecast.

## Other Key Credit Considerations

### Governance

In our opinion, Storebrand has executed on its well-defined strategy to focus on its key business areas and goals, for example to strengthen its asset management.

Additionally, we believe the group benefits from a deeply embedded enterprise risk management framework and culture to prevent and manage risks.

Beyond that, we do not see any material governance issues for Storebrand.

### Liquidity

We regard Storebrand's liquidity position as exceptional, thanks to its recurring premium income and highly liquid asset portfolio.

### Environmental, social, and governance

We believe Storebrand's exposure to environmental and social risks is rather in line with the industry and peers such as DNB and Danica. The group's risks are mainly concentrated in life insurance where, like its peers, it faces greater social than environmental risk. The group's main exposure to environmental risk is through its investment portfolio, where changes in public opinion regarding climate change could cause greater asset valuation volatility. Though, we note sustainability is well integrated into all investment decisions. Storebrand further strengthened its climate risk analyses and disclosure during 2019 through adopting the recommendations of the Task Force on Climate-related Financial Disclosures. Additionally, effective as of November 2020, Storebrand is included in the Dow Jones Sustainability Index.

Although there is a clear shift toward asset management and unit-linked products, Storebrand's back-book still carries guaranteed business which is somewhat more exposed to social factors. For example, demographic trends could, in our opinion, lead to greater longevity, which could increase insurance liabilities.

### Factors specific to the holding company

We rate Storebrand ASA, the holding company, two notches below the operating companies of Storebrand Liv and Storebrand Bank. This reflects our view of structural subordination of Storebrand's creditors versus the policyholders of its insurance subsidiaries.

### Accounting considerations

We base our analysis on Storebrand group's financial statements, which are prepared in accordance with EU-approved International Financial Reporting Standards. We have adjusted our risk-based insurance capital model by:

- Focusing on the group's insurance activities and deconsolidating Storebrand Bank.
- Giving partial credit for the Norwegian and Swedish capital buffers, such as additional statutory reserves.
- Adjusting the risk charges for Norwegian and Swedish asset liability mismatches to reflect the specific characteristics of parts of the group's bond portfolio and its tight asset-liability management.

## Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Insurance | General: Insurers 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

## Appendix

Storebrand--Credit Metrics History			
Ratio/Metric	2019	2018	2017
S&P Global Ratings capital adequacy	Strong	Strong	Strong
Total invested assets	538,108	498,748	493,173
Total shareholder equity	33,398	32,873	30,832
Gross premiums written	32,393	29,670	26,719
Net premiums written	32,366	29,631	26,652
Net premiums earned	32,366	29,631	26,652
Reinsurance utilization (%)	0.08	0.13	0.25
EBIT adjusted	2,957	3,165	2,871
Net income (attributable to all shareholders)	2,082	3,697	2,406
Return on revenue (%)	3.38	9.06	4.70
Return on assets (excluding investment gains/losses) (%)	0.49	0.55	0.53
Return on shareholders' equity (reported) (%)	6.28	11.61	8.23
Life: Net expense ratio (%)	14.20	14.83	15.38
EBITDA fixed-charge coverage (x)	9.98	10.04	7.65
EBIT fixed-charge coverage (x)	8.12	8.65	6.15
Financial obligations / EBITDA adjusted	2.44	2.23	2.47
Financial leverage including pension deficit as debt (%)	20.97	19.97	22.23
Net investment yield including investment gains/(losses) (%)	16.15	0.39	9.41



## Business And Financial Risk Matrix

Business risk profile	Financial risk profile							
	Excellent	Very Strong	Strong	Satisfactory	Fair	Marginal	Weak	Vulnerable
Excellent	aa+	aa	aa-	a+	a-	bbb	bb+	b+
Very Strong	aa	aa/aa-	aa-/a+	a+/a	a-/bbb+	bbb/bbb-	bb+/bb	b+
Strong	aa-/a+	a+/a	a/a-	a-/bbb+	bbb+/bbb	bbb-/bbb	bb-/bb-	b+/b
Satisfactory	a	a/a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bb+/bb	bb-/b+	b/b-
Fair	a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb/bb-	b+/b	b-
Weak	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b/b-	b-
Vulnerable	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b+/b	b/b-	b-	b-

**Note:** Where table indicates two possible outcomes, we determine the anchor as follows: For financial risk profiles that we assess as satisfactory or stronger, we consider the relative strength of both the business risk and financial risk profiles within the cell. This is based on a holistic assessment of the relative strengths of the rating factors of the business risk profile and financial risk profile. For financial risk profiles that we assess as fair or weaker, we typically place more weight on the relative strength of the rating factors of the financial risk profile.

## Ratings Detail (As Of November 20, 2020)\*

### Operating Company Covered By This Report

#### Storebrand Livsforsikring AS

Financial Strength Rating

*Local Currency*

A-/Stable/--

Issuer Credit Rating

A-/Stable/--

Junior Subordinated

BBB

Subordinated

BBB

**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.

### Additional Contact:

Insurance Ratings Europe; insurance\_interactive\_europe@spglobal.com

Copyright © 2020 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.