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Ratings

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Storebrand Group

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SACP* Assessments				SACP*		Support		Ratings
Anchor	a-	Modifiers	0	a-		0		Financial Strength Rating
Business Risk		ERM and Management	0	Liquidity	0	Group Support	0	A-/Stable/--
Strong								
Financial Risk		Holistic Analysis	0	Sovereign Risk	0	Gov't Support	0	
Upper Adequate								

*Stand-alone credit profile.
See Ratings Detail for a complete list of rated entities and ratings covered by this report.

Major Rating Factors

Strengths:	Weaknesses:
• One of the largest life and pension insurers in the Nordics, with a leading positon in the Norwegian occupational pension market. • Strong long-standing relationships with key corporate clients in Norway.	• Despite a shift to capital-light products, there's still a significant portfolio of guaranteed pensions business, which could lead to capital and earnings volatility. • Improved capitalization, but it relies to some extent on softer forms of capital.

Rationale

Norway-based Storebrand Livsforsikring AS and its Swedish subsidiary SPP form one of the largest life and pensions groups in the Nordic region, with a leading position in the Norwegian occupational pension market. The group is changing its product portfolio toward more capital-light products, such as unit-linked products, and asset management. However, the group still has a large portfolio of guaranteed pensions business, which depresses its capitalization and could lead to earnings volatility.

Outlook: Stable

The stable outlook reflects our expectation that Storebrand will maintain at least moderately strong capital adequacy, according to our capital model, over the next two years, backed by strong, resilient earnings. We assume that Storebrand will continue to focus on further developing its life insurance and asset management business, where it will maintain its strong competitive position in Norway and Sweden.

The stable 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 on the bank with the unsupported group credit profile. Any rating action on the Storebrand group would result in a similar action on Storebrand Bank. Similarly, if we believed that Storebrand Bank's status in the group had changed, resulting in a lower likelihood of extraordinary support from the group, this would result in a rating action on the bank. However, we consider such a scenario to be unlikely.

Downside scenario

We could lower our ratings on Storebrand over the next two years if capital adequacy were to weaken below the moderately strong range, contrary to our base-case assumption. This could happen, for example, due to:

- Very aggressive dividend payouts or large share buybacks;
- A considerable market correction that affected the capital market for a prolonged period, materially eroding the company's capital buffers;
- Large and unexpected investment losses; or
- A large acquisition outside Norway.

We could also lower the ratings if Storebrand materially increased the risk-taking in its investment book, or if its competitive position weakened due to material disruption of its multichannel distribution channel or substantially weaker operating performance.

Upside scenario

Although this is a remote scenario, we could raise the rating if Storebrand were to retain its strong competitive position, while accomplishing a very large reduction of guaranteed liabilities, derisking the investment book, and improving the quality of capital.

Macroeconomic Assumptions

- We expect Norway and Sweden to show solid economic growth in the coming years. We forecast GDP growth of mainly around 2%, and a relatively low prevailing unemployment rate with stable inflation rates of around 2%.
- We expect long-term interest rates on Nordic government bonds might increase somewhat but stay close to the current lows over 2018-2020.

Key Metrics

(Mil. NOK)	2020	2019	2018	2017	2016	2015	2014	2013
Gross premiums written	>27	>27	~27	26,719	25,971	25,577	25,304	28,751
Net premiums written	>27	>27	~27	26,652	25,829	25,460	25,220	28,656
Net income	> 2000	> 2000	> 2000	2,406	2,142	1,383	2,084	1,987
Return on shareholders' equity (%)	>7	>7	>7	8.2	7.8	5.4	8.8	9.3
Return on assets (%)	>0.4	>0.4	>0.4	0.6	0.6	(0.0)	0.7	0.6
Net investment yield (%)	N.A.	N.A.	N.A.	9.4	8.4	4.2	11.1	7.9
Our capital adequacy assessment	Strong	Strong	Strong	Very strong	Moderately strong	Upper adequate	Upper adequate	Upper adequate
Fixed charge coverage (x)	~7	~7	~7	7.3	8.2	0.9	7.6	7.3
Financial leverage (%)	~16	~16	~16	17.1	16.8	17.3	16.3	16.8

f--S&P Global Ratings forecast. NOK--Norwegian krona. N.A.--Not available. Sources: Financial leverage and capital adequacy in 2013-2016 based on Storebrand Liv.

Business Risk Profile: Strong

In the challenging low-interest-rate environment across the globe, the Norwegian and Swedish economies have remained generally resilient, although many life insurers have to manage and finance high guarantees in their back books of business.

Storebrand has a sound position in Norwegian life insurance with a market share of about 17% at year-end 2017 in terms overall gross premiums (including existing business). In particular, in the Norwegian unit-linked segment, it has held a market share of about 30% for several years, which we do not expect to change materially over the medium term. Combined with its Swedish subsidiary SPP, Storebrand is one of the largest Nordic life and pension insurers alongside KLP, DNB, Danica, and Nordea Liv. Storebrand's small non-life insurance and bank businesses provide limited diversification of business lines and revenue sources, albeit DNB, Danica, and Nordea Liv are part of larger, regional banks and benefit from their support and services.

From our perspective, the group benefits from its strong brand and long-standing expertise in the occupational pension market. Storebrand enjoys stable relationships with large Norwegian corporate entities with more than two million policyholders.

Storebrand has a clear strategy of decreasing its large exposure to insurance products carrying guarantees. Therefore, the company is focusing on unit-linked products that provide a material income stream to the group (making up 51% of overall earnings in 2017 compared with 15% in 2012). We also see the group's asset management as an important earnings generator, of which roughly two-thirds of the assets under management stem from internal insurance business, and the remainder from external business. We believe Storebrand's acquisition of Skagen in December 2017 will foster its ambition to further develop its asset management operations. We consider scale to be an important factor because competition is fierce and margins are under pressure.

Financial Risk Profile: Upper Adequate

Storebrand's shift to capital-light products resulted in an improvement of its capitalization and earnings generation. The group's results as of Sept. 30, 2018, showed strong net income of Norwegian krone (NOK) 1.8 billion (€190 million) after NOK2.4 billion for the full year of 2017, thanks partly to sound earnings from the unit-linked segment. Over the next two to three years, we expect Storebrand to generate net income of at least NOK2.0 billion annually, backed by healthy earnings from unit-linked business and income from asset management.

We currently view capital adequacy, measured by our risk-based capital model, as very strong, thanks to the fast increase in policyholder buffers, benefitting also from market-value appreciation. We expect that the group's capital adequacy will stay firmly in the strong category over the next three years. Our capital forecast acknowledges potential extraordinary dividend payouts and moderate volatility in policyholder buffers. We also take into account that the group's capital relies to some extent on softer forms of capital, like policyholder or hybrid capital.

In our view, Storebrand still faces interest rate risk, due to its significant portfolio of guaranteed pensions business. As of the third-quarter of 2018, about 58% of its total reserves carry an average guarantee of just below 3%. It will take many years until the guarantee amount in these policies reduces, despite Storebrand's efforts to reduce this exposure. The guaranteed portfolio could lead to volatility in the group's capital and earnings.

Storebrand has adequate access to capital through the equity and bond markets. For example, in 2018, the group tapped the equity market to finance the acquisition of Skagen, and issued additional subordinated debt of NOK1 billion. In line with our earnings forecast, we anticipate that the group's fixed-charge coverage will remain favorable over 2018-2020.

Other Assessments

We regard enterprise risk management (ERM) as of key importance for Storebrand, with its guaranteed pension business and exposure to interest rate risk. In our view, Storebrand benefits from robust ERM processes and a positive ERM culture that is deeply embedded in the entire group.

Furthermore, in our perspective, Storebrand benefits from a stable and experienced management team. We acknowledge the turnaround management has achieved by executing its strategy to shift the product portfolio and its active liability management.

Finally, we have a favorable view of Storebrand's liquidity position, based on its recurring premium income and highly liquid asset portfolio.

Other Considerations

We consider Storebrand ASA to be a nonoperating holding company and rate it 'BBB', two notches below the group credit profile, to take into account the 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

- Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- 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 - Financial Institutions - Banks: Quantitative Metrics For
- Rating Banks Globally: Methodology And Assumptions, July 17, 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
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- 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

Related Research

- Storebrand Bank ASA, Aug. 10, 2018
- Norwegian Life Insurer Storebrand Upgraded To 'A-' On Improved Capitalization; Outlook Stable, July 20, 2018
- Nordic Insurers: Digitalization Is A Key To Operational Efficiency, May 2, 2018
- Insurance Industry And Country Risk Assessment: Norway Life, April 12, 2018

Ratings Detail (As Of October 30, 2018)	
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
Related Entities	
Storebrand ASA	
Issuer Credit Rating	BBB/Stable/--
Storebrand Bank ASA	
Issuer Credit Rating	A-/Stable/A-2
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.

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