S&P Global Ratings

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Storebrand Group

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Anchor	a-	+	Modifiers	0	=	SACP	a-

Business Risk	**Strong**
Competitive position	Strong
IICRA	Intermediate
Financial Risk	**Satisfactory**
Capital and earnings	Strong
Risk exposure	Moderately high
Funding structure	Neutral

Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0

+

Support	**0**
Group support	0
Government support	0

=

A-/Stable/--

Financial strength rating

IICRA--Insurance Industry And Country Risk Assessment.
SACP--Stand-alone credit profile.

Credit Highlights

Overview

Key strengths	Key risks
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.	Reliance on softer forms of capital, to a certain degree.
Very strong capitalization measured by S&P Global Ratings' risk-based capital model.	Considerable portfolio of guaranteed pensions business is in run-off and declining, which could lead to capital and earnings volatility.

We believe Storebrand will retain 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. Moreover, the decision to re-enter the Norwegian municipal occupational pension market in 2020, following recent pension reforms, could mean additional diversification.

We expect Storebrandś 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 64% of profit in 2020. The group also benefits from its strong position in asset management, which has historically witnessed healthy growth, and its expanding retail business.

We believe Storebrand's capitalization will remain very strong. We expect Storebrand's very strong capitalization, as measured by our risk-based capital model, to last, supported by the run-off of the guaranteed book of business; a clear shift to capital-light products; and sustained healthy earnings generation. Consequently, we view this as a key rating strength that we express in our choice of anchor for the ratings. Nevertheless, we believe the group's capitalization is somewhat constrained by its dependence on softer forms of capital.

Outlook: Stable

The outlook is stable because we expect Storebrand will defend its strong position in the Norwegian life and pension market over the next two years, 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 Storebrand group would result in a similar action on Storebrand Bank.

Upside scenario

We could raise the ratings over the next 12-24 months if Storebrand's exposure to guaranteed liabilities and high-risk assets continues to decrease, and its resilience to potential capital and earnings volatility increases through strong earnings diversification toward less interest-sensitive lines of business, or less reliance on softer forms of capital. An upgrade would also depend on Storebrand maintaining its strong market position.

Downside scenario

Although unlikely at this stage, we could lower the ratings if the group's capitalization drops 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 a more-substantial market downturn than during the COVID-19 pandemic; or
- A large acquisition that erodes the group's capital position.

Key Assumptions

- We expect the Swedish and Norwegian economies to rebound in 2021, with real GDP growth at 3.8% and 3.2%, respectively.
- We forecast relatively high unemployment rates with inflation rates of around 1.9% and 1.6% for Norway and Sweden, respectively.
- We anticipate long-term interest rates will remain low in 2021-2023.

Storebrand Group--Key Metrics

	2023f	2022f	2021f	2020	2019	2018	2017
S&P capital adequacy	Strong	Strong	Strong	Strong	Strong	Strong	Strong
Gross premiums written (Mil. NOK)	>45,000	>45,000	~45,000	44,220.0	32,393.0	29,670.0	26,718.9
Net premiums written (Mil. NOK)	>45,000	>45,000	~45,000	44,188.0	32,366.0	29,631.0	26,651.5
Net income (Mil. NOK)	>2,500	>2,200	2,000-2,500	2,355.0	2,082.0	3,697.0	2,406.0

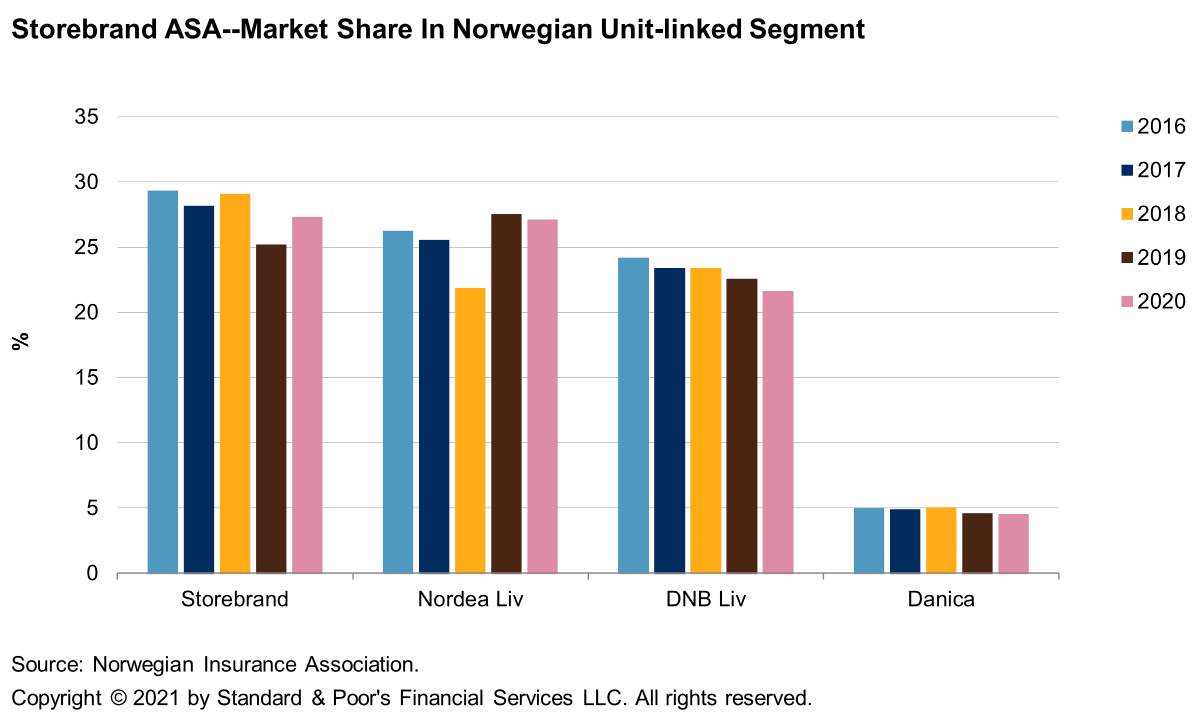
Storebrand Group--Key Metrics (cont.)							
	2023f	2022f	2021f	2020	2019	2018	2017
Return on shareholders' equity (%)	>7	>7	~5-7	6.8	6.3	11.6	8.2
Return on assets (%)	>0.45	>0.45	>0.40	0.4	0.5	0.6	0.5
Net investment yield including investment gains/(losses) (%)*	>4	>4	>4	4.4	5.3	1.9	4.2
Fixed charge coverage (x)	>7	>7	>7	9.4	10.0	10.0	7.7
Financial leverage including pension deficit as debt (%)	>20	>20	~23	20.2	21.0	20.0	22.2
Financial obligations to EBITDA	>2	>2	>2	2.7	2.4	2.2	2.5

f--Forecast (S&P Global Ratings' base-case assumptions). NOK--Norwegian krona. Note: *Net investment yield is for Storebrand Livsforsikring (excluding the unit linked business).

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 29%, which we do not anticipate will change substantially over the medium term. In Sweden, SPP's market share has risen significantly in recent years and currently stands at about 18%.

Chart 1



Notwithstanding challenging market conditions in 2020, Storebrand reported strong top-line growth and improved net earnings. This strong performance continued into the second quarter of 2021, with Storebrand's gross premium income strengthening, after increased by about 36% to Norwegian krone (NOK) 44.2 billion (about $5.1 billion) in 2020 from NOK32.9 billion in 2019.

In our view, 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. Furthermore, we acknowledge SPP's strong growth track record in recent years with respect to new sales and transfers. In 2020, about 25% of transferable funds in the occupational pension market were transferred to the SPP. We also believe Storebrand benefits from a diversified business and earnings mix, particularly via the group's asset management, but also from its, albeit small and expanding, non-life insurance and bank businesses.

We believe the decision to re-enter the Norwegian municipal occupational pension market in 2020, following recent pension reforms, and the group's ambitions for its asset management and retail businesses, could mean additional diversification. In particular, we understand the gradual transfer of contracts from Insr Insurance Group's portfolios will foster growth of retail business in 2021.

In response to the low-interest-rate environment, Storebrand intends to decrease 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 about 64% of overall earnings in 2020, compared with 15% in 2012). Moreover, we regard Storebrand's asset management as an important earnings generator, of which roughly two-thirds of assets under management stem from the internal insurance business, and the remainder from external business. In our view, Storebrand has over the years successfully developed its asset management business as scale remains an important factor, due to competition and margin pressure. As of second-quarter 2021, Storebrand's total asset under management exceeded NOK1,000 billion for the first time.

Financial Risk Profile: Satisfactory

In our view, Storebrand's shift toward capital-light products supports the sustained improvement of its capitalization and earnings capacity. We believe Storebrand demonstrated resilience throughout the COVID-19-related financial market turbulence in 2020, reporting a strong financial result with net income of about NOK2.4 billion.

During the first half of 2021, Storebrand delivered net income of about NOK1.6 billion supported by healthy earnings from the unit-linked segment. This is broadly in line with our net income forecast of at least NOK1.9 billion-NOK2.2 billion annually over 2021-2023. We continue to expect Storebrand's dividend payout ratio will remain at 50%-65% in normal market circumstances, and that the group's capitalization will stay in the 'AA' range (as measured by our risk-based capital model) over 2021-2023. In 2020, Storebrand's strong buffers shielded its capitalization from COVID-19-related volatility. Regulatory capital adequacy, based on Solvency II, stood at 178% at year-end 2020, and weakened to 172% in second-quarter 2021, mainly because of regulatory changes and lower interest rates. Nevertheless, we appreciate that Storebrand is committed to keeping its solvency ratio at 150%-180%.

In second-quarter 2021, guaranteed reserves were about 50% of total reserves, and the average guaranteed rate about 3.0%. The guaranteed portfolio continues to decline, and we note that Storebrand expects about NOK10 billion of capital to be released by 2030 as guaranteed liabilities are paid out. Moreover, we understand Storebrand aims to start share buybacks in 2023, provided the solvency ratio is about 180%. Norway's 10-year government bond yield remains higher than in other European markets, having decreased meaningfully during 2020 but then returned to prepandemic levels in 2021. Given this, we believe the guaranteed portfolio could potentially lead to capital and earnings volatility. On the other hand, the company demonstrated resilience throughout 2020, and it has strong capital buffers to meet the guaranteed interest rates should investment returns be insufficient.

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.

During 2021, the group effectively issued a €300 million fixed- to floating-rate subordinated Tier 2 debt, and Swedish krona (SEK) 900 million of restricted tier 1 subordinated debt. We believe the proceeds of the subordinated Tier 2 debt issue will be used to repurchase or refinance the group's outstanding Tier 2 debt. Furthermore, we expect Storebrand to maintain prudent financial leverage of about 20%, and favorable fixed-charge coverage of about 8x over 2021-2023 in line with our earnings forecast.

Other Key Credit Considerations

Governance

In our opinion, Storebrand has executed on its well-defined strategy to focus on key areas and goals, for example to strengthen its asset management business. 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 in line with the industry's and that of 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.

However, we note sustainability is well integrated into all investment decisions. In 2020, Storebrand announced a new climate policy covering the entire group, a new climate strategy for its investments, and a new purchasing policy with updated expectations for its suppliers.

Moreover, as of November 2020, Storebrand was recognized on the Dow Jones Sustainability Index as one of the 10 percent most sustainable companies in the world.

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 Storebrand Liv and Storebrand Bank. This reflects our view of 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

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

Related Research

- Norwegian Life Insurer Storebrand Livsforsikring AS' Restricted Tier 1 Notes Rated 'BBB-', Aug 26, 2021
- Research Update: Norwegian Insurer Storebrand Ratings Affirmed At 'A-'; Outlook Stable, Jun 01, 2021
- Norwegian Life Insurer Storebrand Livsforsikring AS Subordinated Notes Rated 'BBB', Mar 22, 2021

Appendix

Storebrand Group--Credit Metrics History

Ratio/Metric	2020	2019	2018
S&P Global Ratings capital adequacy	Strong	Strong	Strong
Total invested assets	609,883	538,108	498,748
Total shareholder equity	35,923	33,398	32,873

Storebrand Group--Credit Metrics History (cont.)

Ratio/Metric	2020	2019	2018
Gross premiums written	44,220	32,393	29,670
Net premiums written	44,188	32,366	29,631
Net premiums earned	44,188	32,366	29,631
Reinsurance utilization (%)	0.1	0.1	0.1
EBIT adjusted	2,575	2,957	3,165
Net income (attributable to all shareholders)	2,355	2,082	3,697
Return on revenue (%)	3.2	3.4	9.1
Return on assets (excluding investment gains/losses) (%)	0.4	0.5	0.6
Return on shareholders' equity (reported) (%)	6.8	6.3	11.6
Life: Net expense ratio (%)	10.5	14.2	14.8
EBITDA fixed-charge coverage (x)	9.4	10.0	10.0
EBIT fixed-charge coverage (x)	7.2	8.1	8.7
Financial obligations / EBITDA adjusted	2.7	2.4	2.2
Financial leverage including pension deficit as debt (%)	20.2	21.0	20.0
Net investment yield including investment gains/(losses) (%)*	4.4	5.3	1.9

Note: Net investment yield is for Storebrand Livsforsikring (excluding the unit linked business).

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-/bb+	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 September 29, 2021)*

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
Subordinated	BBB-

Ratings Detail (As Of September 29, 2021)*(cont.)	
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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