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Research Update:

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

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Overview

- We believe leading Norwegian life and pension insurer Storebrand demonstrated resilience throughout COVID-19-related financial market turbulence in 2020, reporting an increase in top line and improvement in net earnings.
- We view Storebrand's capitalization as very strong, partly offset by the large amount of softer forms of capital, and although declining, its portfolio of guaranteed pensions business.
- Therefore, we affirmed our 'BBB' ratings on Storebrand ASA and our 'A-' ratings on its subsidiary Storebrand Livsforsikring AS.
- The stable outlook on both entities reflects our expectation that Storebrand will maintain its strong competitive position in the Norwegian life insurance market over the next two years, and operate with capitalization in the 'AA' range, as per our model.

Rating Action

On June 1, 2021, S&P Global Ratings affirmed its 'A-' long-term insurer financial strength and issuer credit ratings on Storebrand Livsforsikring AS, a core subsidiary of Storebrand ASA, the group holding company. In addition, we affirmed our 'BBB' rating on Storebrand Livforsikring AS' subordinated debt.

We also affirmed our 'BBB' long-term issuer credit rating on Storebrand ASA.

The outlooks are stable.

The ratings on Storebrand Bank ASA remain unchanged.

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 backbook exposure to guaranteed pension business.

We believe Storebrand will retain its robust position in the Norwegian life insurance market, benefitting from its strong brand and long-standing expertise in the occupational pension market. We also believe Storebrand benefits from a diversified business and earnings mix, particularly via the group's asset management. Moreover, the decision to re-enter the Norwegian municipal occupational pension market in 2020, following recent pension reforms, and the groups high ambitions for its asset management and retail businesses, could mean additional diversification.

Notwithstanding challenging market conditions in 2020, we note Storebrand reported strong top line growth and improved net earnings, partly due to tax income. This strong performance continued into first-quarter 2021. We believe Storebrand will maintain capitalization in the 'AA' range, according to our capital model, over the next two-to-three years. This is reinforced by our assumption of net income of at least Norwegian krone (NOK) 2.0 billion annually over the same period. However, we assume short-term margin pressure will come from changed market dynamics via the introduction of Individual Pension Accounts on Jan. 1, 2021, although we note Storebrand has responded by evolving its savings and insurance business. 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, but weakened to 176% in first-quarter 2021, mainly because of regulatory changes. Nevertheless, we appreciate that Storebrand is committed to keeping its solvency ratio at 150%-180%. We therefore consider the risk of mandatory deferral to be remote and do not consider it necessary to deduct a further notch from the rating on the outstanding subordinated notes.

We continue to expect Storebrand's dividend payout ratio will remain at 50%-65% in normal market circumstances. Despite its shift to capital-light products, we believe Storebrand will continue to face interest-rate risk, based on its portfolio of guaranteed pensions business. In first-quarter 2021, guaranteed reserves were about 50.7% of total reserves, and the average guaranteed rate about 3.0%. We acknowledge the guaranteed portfolio continues to decline and note 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 pre-pandemic levels in 2021. Given this, we believe the guaranteed portfolio could potentially lead to capital and earnings volatility. However, we draw comfort from resilience demonstrated throughout 2020, and the group's strong buffers to meet the guaranteed interest rate should investment returns be insufficient.

Outlook

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, for example, triggered by a an even more substantial market downturn than seen with COVID-19; or
- A large acquisition that erodes the group's capital position.

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 that of peers, and its very strong capitalization, according to our capital model.

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

Ratings List

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

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