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Ratings

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Research Update:

Storebrand 'A' Ratings Affirmed Following Revised Capital Model Criteria; Outlook Stable

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Overview

- On Nov. 15, 2023, we published our revised criteria for analyzing insurers' risk-based capital (see "Insurer Risk-Based Capital Adequacy--Methodology And Assumptions").
- The revised criteria have not materially changed our opinion of Storebrand's capital position.
- We therefore affirmed our 'A' long-term issuer credit and insurer financial strength ratings on Storebrand Livsforsikring AS and our 'BBB+' long-term issuer credit rating on Storebrand ASA.
- We also affirmed our 'BBB+' issue rating on the group's tier 2 subordinated issue ratings and the 'BBB' issue rating on the restricted tier 1 issue.
- The stable outlook reflects our expectation that Storebrand will maintain capital exceeding our 99.8% confidence level and deliver profitable growth over 2024-2026.

Rating Action

On June 26, 2024, S&P Global Ratings affirmed its 'A' long-term issuer credit rating on Storebrand's core subsidiaries. We also affirmed our 'BBB+' issuer credit rating on the group's holding company, Storebrand ASA. The outlook on the long-term ratings is stable. We also affirmed our 'BBB+' issue rating on the group's tier 2 subordinated debt and our 'BBB' issuing rating on the restricted tier 1 debt.

Impact Of Revised Capital Model Criteria

- The application of our recently revised capital adequacy framework did not have a material impact on our assessment of Storebrand's capital and earnings.
- The insurer has a clear excess of capital above our 99.8% confidence level.
- Storebrand's total adjusted capital (TAC) has decreased under the new criteria because we no longer include policyholder reserves in our calculation due to its lack of fungibility across the group. As a result, we no longer apply the negative adjustment to the outcome of our capital model, which represented the risks from fungibility. Our capital and earnings score therefore

remains at strong.

- We've captured the benefits of risk diversification more explicitly in our analysis, which supports capital adequacy.

Credit Highlights

Overview

Key strengths	Key risks
A leading Nordic insurance group with significant product diversification. Sizable banking and asset management operations bolster the insurer's positions in both the life and nonlife insurance markets.	Plans to buyback Norwegian krone (NOK) 1.5 billion of stock annually. However, the concurrent reduction in the risk profile due to the runoff of the guaranteed back book should help offset this.
Strong capitalization as measured by S&P Global Ratings' risk-based capital model, with a clear excess at the 99.8% confidence level.	A narrower geographic spread than some 'A' rated peers.
Robust operating performance supporting capital levels over 2024-2026.	A significant portfolio of guaranteed pensions business in runoff, which can add to capital and earnings volatility.

Outlook

The stable outlook reflects our expectation that, over the next two years, Storebrand will maintain an excess of capital over our 99.8% confidence level in our capital model. We expect that the group will balance ambitious plans for share buybacks with robust earnings over 2024-2026.

Downside scenario

We could lower the ratings over the next two years if Storebrand's capitalization drops for an extended period to below our 99.8% confidence level, for example because of higher-than-expected shareholder returns or material investment, or operating losses. We could also lower the ratings if we note a material deterioration of the group's market position in its key pension product line in Norway and Sweden.

Upside scenario

We view an upgrade as unlikely over the next 24 months but we could undertake one if capital adequacy levels improved strongly and sustainably, and the group profitably and materially diversified geographically.

Rationale

We think Storebrand will retain its position as one of the predominant life insurers in the Nordics. In the Norwegian occupational pensions market, it is the market leader with a share of 30%. We expect the group will maintain growth of over 10% in this segment over 2024-2026, possibly more if the group expands its footprint in the public occupational pension market. Storebrand also operates profitably in the group life and nonlife sectors in Norway. We expect

Storebrand will maintain a diversified product portfolio with continuing growth in asset management and banking operations.

We expect the group's robust earnings of recent years will continue over 2024-2026. We forecast Storebrand should record profits before tax of close to NOK4 billion in 2024 and exceed NOK5 billion by the end of 2025. We think the group's volatility in earnings should also decrease. The group has implemented a clear strategy to pivot to a capital-light business. The guaranteed pension business has been steadily declining and now makes up less than one-half of the insurer's solvency capital requirement and 23% of the group's assets under management. The increase in interest rates since the pandemic have helped build significant reserves above the guaranteed rates in the guaranteed book too, helping to further de-risk the group.

We believe Storebrand's capitalization will remain robust from 2024-2026. We expect capitalization to stay above our 99.8% confidence level as measured by our risk-based capital model. Although the group will seek to increase dividend payments and repurchase NOK1.5 billion in share buybacks each year over 2024-2026, we think this will be offset by significant earnings and a reduction in overall risk as the guaranteed book continues to run off. We no longer include credit for policyholder reserves in our new model, which has reduced TAC on implementation. However, we also no longer adjust down our capital and earnings score to reflect risks from the fungibility of these reserves, resulting in no change in our overall assessment of capital and earnings. The significant buffers Storebrand holds against its guaranteed business positively affects our assessment of its risk exposure at moderately low because we now expect very little volatility in our TAC calculation from interest rate moves. We include all of the group's contractual service margin and risk adjustment as TAC in the new model, whereas under our previous model we haircut future profits by 50%. This slightly offsets the reduction in TAC from removing policyholder capital.

Ratings Score Snapshot

	To
Financial strength rating	A
Anchor*	a
Business risk	Strong
IICRA	Low
Competitive position	Strong
Financial risk	Strong
Capital and earnings	Strong
Risk exposure	Moderately low
Funding structure	Neutral
Modifiers	
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0
Support	

	To
Group support	0
Government support	0

*This is mainly influenced by our view of Storebrand's leading position in the occupational pension business in Norway, its sound profitability compared with that of its peers, and its large excess capital position at the 99.8% confidence level in our capital model. IICRA--Insurance Industry And Country Risk Assessment.

Related Criteria

- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions, Nov. 15, 2023
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

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
Subordinated	BBB+
Junior 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.spglobal.com/ratings for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.