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Research Update:

Norwegian Life Insurer Storebrand Upgraded To 'A-' On Improved Capitalization; Outlook Stable

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Overview

- Storebrand's capitalization has strengthened further. Strong earnings in the Norwegian occupational pension business and the group's asset management have particularly helped it to build capital.
- We consider that the longer-term sustainability of Storebrand's capitalization is supported by current capital levels, more resilient net incomes, and the future gradual reduction of the company's guaranteed back-book.
- We are therefore raising our ratings on Storebrand's core entities, Storebrand Livforsikring AS and Storebrand Bank, to 'A-' from 'BBB+'. We are also raising our rating on the holding company Storebrand ASA to 'BBB' from 'BBB-'.
- The stable outlook reflects our expectation that Storebrand will maintain capital adequacy at least in the moderately strong range, backed by sound earnings generation, and will retain capital buffers to offset potential adverse economic scenarios.

Rating Action

On July 20, 2018, S&P Global Ratings raised to 'A-' from 'BBB+' the long-term issuer credit and insurer financial strength ratings on the core operating entities of the Norway-based Storebrand group: life insurer Storebrand Livforsikring AS and Storebrand Bank ASA.

We also raised the issuer credit ratings on the group's nonoperating holding company, Storebrand ASA, to 'BBB' from 'BBB-'.

The outlook on all entities is stable.

Rationale

The upgrade reflects our view that Storebrand's capital position and earnings generation capacity have sustainably improved in recent years. We believe Storebrand is processing the shift in its product portfolio well, as it focuses more on capital-light products, such as unit-linked products, and asset management. In our view, this strategy will ensure lower capital needs over time.

Additionally, we believe Storebrand will show healthy earnings, benefiting from its sound market position in the Norwegian occupational pension market. We also see the group's asset management as an important earnings generator, fostered by the acquisition of Skagen in December 2017. Recent half-year group results showed a strong net income of Norwegian krone (NOK) 1.3 billion after NOK2.4 billion net income for year-end 2017. Over the next two-to-three years, we expect Storebrand to generate net income of at least NOK1.9 billion annually. This strong operating performance, combined with the beneficial multichannel distribution strategy, is key to Storebrand's overall strong competitive position and business risk profile.

We anticipate that Storebrand's capital adequacy, as measured by our risk-based capital model, will settle in the strong range over the next two-to-three years. Our capital forecast acknowledges potential extraordinary dividend payouts and moderate volatility in policyholder buffers. We now assess capital and earnings as moderately strong, revised upward from upper adequate.

Storebrand still has a significant portfolio of guaranteed pensions business. As of the second-quarter of 2018, about 58% of its total reserves are guaranteed. These policies will remain a large proportion of Storebrand's in-force business for many years, despite the insurer's efforts to reduce this exposure. The guaranteed portfolio relies on Storebrand's capitalization, which we reflect in our continued assessment of the risk position as moderate. However, we believe that Storebrand's capital position is now stronger and more robust, and can mitigate more effectively potential drawbacks stemming from the guaranteed book. This supports our view of capital adequacy as at least moderately strong, and the rating level of 'A-'.

Outlook

The stable outlook reflects our expectation that Storebrand will maintain capital adequacy at least in the moderately strong range according to our capital model over the next two years, backed by strong, resilient earnings. It also reflects our assumption 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 the group status of Storebrand Bank within the Storebrand 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 would affect the capital market for a prolonged period, materially eroding the company's capital buffers;
- Large and unexpected investment losses; or
- A large-scale acquisition outside Norway.

We could also lower the ratings if the company materially increased its risk-taking in its investment book, or if the competitive position were to erode due to material disruption in its multichannel distribution or materially 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 and simultaneously de-risking the investment book and improving the quality of capital.

Ratings Score Snapshot

	To	From
Financial Strength Rating	A-/Stable/--	BBB+/Positive/--
Anchor	a-	bbb+
Business Risk Profile	Strong	Strong
IICRA	Intermediate Risk	Intermediate Risk
Competitive Position	Strong	Strong
Financial Risk Profile	Upper Adequate	Lower Adequate
Capital and Earnings	Moderately Strong	Upper Adequate
Risk Position	Moderate	Moderate
Financial Flexibility	Adequate	Adequate
Modifiers	0	0
ERM and Management	0	0
Enterprise Risk Management	Adequate	Adequate
Management & Governance	Satisfactory	Satisfactory
Holistic Analysis	0	0
Liquidity	Exceptional	Exceptional
Support	0	0
Group Support	0	0

Government Support 0 0

Related Criteria

- Criteria - Financial Institutions - General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- Criteria - Financial Institutions - 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: Insurers: Rating Methodology, May 7, 2013
- Criteria - Insurance - General: Enterprise Risk Management, 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
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: 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

Ratings List

Upgraded; Outlook Action

To

From

Storebrand Livsforsikring AS

Issuer Credit Rating	A-/Stable/--	BBB+/Positive/--
Financial Strength Rating		
Local Currency	A-/Stable/--	BBB+/Positive/--
Storebrand ASA		
Issuer Credit Rating	BBB/Stable/--	BBB-/Positive/--
Storebrand Bank ASA		
Issuer Credit Rating	A-/Stable/A-2	BBB+/Positive/A-2
Storebrand Livsforsikring AS		
Subordinated	BBB	BBB-
Junior Subordinated	BBB	BBB-

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