

**CREDIT OPINION**

21 November 2024

Update

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**RATINGS**

**Western & Southern Financial Group, Inc.**

Domicile	CINCINNATI, Ohio, United States
Long Term Rating	A3
Type	Senior Unsecured - Dom Curr
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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**Western & Southern Financial Group, Inc.**

Rating affirmation reflects strong financial flexibility and capitalization as well as diversified distribution network

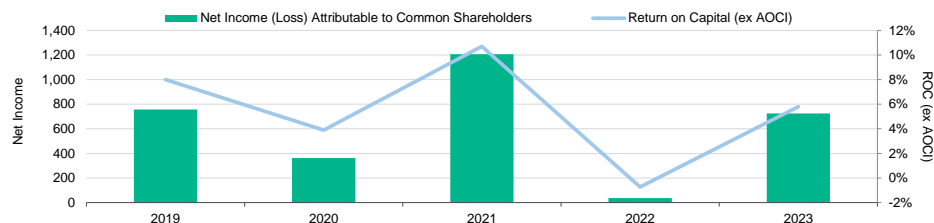
**Summary**

Our credit view of [The Western and Southern Life Insurance Company](#) (WSLIC, insurance financial strength rating (IFS) rating Aa3 stable), the lead company of the [Western and Southern Financial Group, Inc.](#) (W&SFG, senior unsecured A3 stable), and its primary subsidiaries, [Western-Southern Life Assurance Company](#) (WSLAC, IFS rating Aa3, stable), [Columbus Life Insurance Company](#) (CLIC, IFS rating Aa3 stable), [Integrity Life Insurance Company](#) (Integrity, IFS rating Aa3 stable) and [National Integrity Life Insurance Company](#) (NILIC, IFS rating Aa3 stable), reflect the group's excellent financial profile that is supported by the company's strong capitalization and financial flexibility. The company maintains good profitability, demonstrates excellent and consistent capital levels, as evidenced by a consolidated NAIC company action level risk-based capital ratio (CAL RBC) of approximately 435% as of December 31, 2023 and a resilient balance sheet under stress scenarios with consistent investment performance. Moody's also noted the organization's solid market position, diverse distribution channels and product offering of retirement and protection products. The company has been improving the productivity and cost effectiveness of its distribution networks; it has also been further developing its digital and direct-to-consumer (DTC) capabilities leveraging the Gerber brand to grow its protection business and financial wellness initiatives for the middle market. W&SFG's preferred positions with RIAs including Fidelity Investments are also positive attributes supporting its business profile.

The company's strengths are tempered by W&SFG's modest market position and brand relative to its rating, its concentration in spread-based businesses (relative to participating whole life) and the intense competition in core business segments. In addition, the company has sizable exposures to below investment-grade bonds, structured securities, equities, and alternative investments, and a total return focused investment strategy that subjects the company to equity market volatility.

Exhibit 1

**Net income improved in 2023, as carrying values of equity and debt investments rebounded**



Source: Moody's Ratings and company filings

## Credit strengths

- » Excellent, high quality capital adequacy, as measured by consolidated NAIC CAL RBC ratio (approximately 435% at December 31, 2023), and good liquidity resources
- » Diversified W&SFG distribution channels
- » Strong expense controls
- » Stable and profitable block of individual life insurance business including home service policies

## Credit challenges

- » Managing the higher-risk accumulation products relative to stable life insurance in force
- » Modest size and scale of core life, annuity, and asset management/mutual fund businesses
- » Material holdings of higher-risk assets, including below investment-grade bonds, alternative investments, and equities.

## Outlook

The outlook for W&SFG is stable and is based on company's solid market position, diverse distribution channels, strong capitalization, and good financial flexibility. Items to watch are mortality levels, interest rates, investment performance, and the expansion of the company's business strategy across the organization including digital capabilities and a DTC strategy, and the growth in its annuity and mutual fund businesses relative to its protection business.

## Factors that could lead to an upgrade

- » GAAP return on capital (ROC) consistently at or above 6% (ex. AOCI) without increasing the risk profile of liabilities
- » Continued profitable product line expansion in core businesses, enabling W&SFG to gain material market share and national brand awareness leveraging multiple distribution capabilities
- » High risk assets of less than 85% of shareholders' equity, and
- » Financial leverage (ex. AOCI) remains below 15%

## Factors that could lead to a downgrade

- » ROC below 4%
- » Sustained decline in consolidated NAIC CAL RBC ratio of less than 375% or a reduction in capital of more than 10%
- » Material increase in higher risk businesses (e.g., fixed annuities and variable annuities with secondary guarantees) above current levels as a percentage of total reserves; or
- » Increased asset risk heightening investment losses in a stress scenario

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody's.com> for the most updated credit rating action information and rating history.

## Key indicators

Exhibit 2

Western &amp; Southern Financial Group, Inc.

Western & Southern Financial Group, Inc. [1][2]	2023	2022	2021	2020	2019
<b>As Reported (US Dollar Millions)</b>					
Total Assets	75,075	67,483	66,862	62,893	58,428
Total Shareholders' Equity	10,939	9,031	13,074	12,404	10,884
Net Income (Loss) Attributable to Common Shareholders	754	59	1,216	371	765
Total Revenue	7,482	5,546	6,431	5,138	5,901
<b>Moody's Adjusted Ratios</b>					
High Risk Assets % Shareholders' Equity (ex AOCI)	95.5%	95.3%	97.1%	101.5%	98.3%
Goodwill & Intangibles % Shareholders' Equity (ex AOCI)	32.2%	36.1%	27.0%	27.3%	30.1%
Shareholders' Equity % Total Assets	12.6%	11.0%	17.1%	17.0%	16.2%
Return on Average Capital (ROC) (ex AOCI)	5.8%	-0.7%	10.7%	3.9%	8.0%
Sharpe Ratio of ROC (5 yr.) (ex AOCI)	128.4%	134.6%	263.5%	310.7%	431.1%
Financial Leverage (ex AOCI)	8.1%	11.2%	9.4%	7.9%	8.5%
Total Leverage (ex AOCI)	11.6%	13.0%	11.3%	9.0%	9.6%
Earnings Coverage	7.1x	-0.1x	19.9x	7.2x	18.9x
Cash Flow Coverage	26.0x	25.5x	24.9x	20.9x	20.1x
Net Unrealized Gain(Loss) % Shareholders' Equity (ex AOCI)	-12.6%	-23.7%	15.0%	23.6%	14.9%

[1] Information based on US GAAP financial statements as of the fiscal year ended 31 December. [2] Certain items may have been relabeled and/or reclassified for global consistency.

Source: Company filings and Moody's Ratings

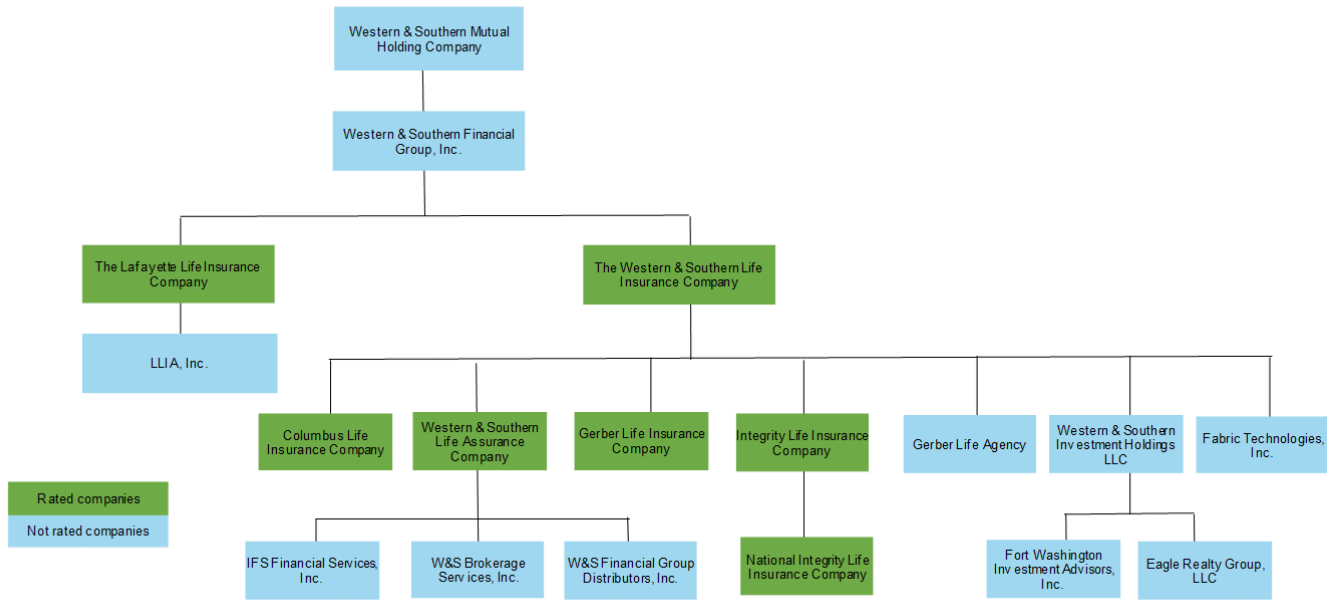
The company has not yet adopted the new accounting standards that apply to life insurers under US GAAP, Long Duration Targeted Improvements (LDTI).

## Profile

Western & Southern Financial Group, Inc. is a Cincinnati-based financial services holding company that provides life and health insurance, annuity, mutual fund, retirement planning and investment products to middle-market and upper-middle-market consumers, businesses and institutions in the Midwest and nationally. It offers insurance services through WSLIC, its primary life insurance company, and through other insurance subsidiaries, including WSLAC, Integrity, NILIC, CLIC, Lafayette Life Insurance Company (LLIC) and Gerber Life Insurance Company (Gerber). W&SFG is a wholly-owned subsidiary of Western & Southern Mutual Holding Company (W&SMHC), a Ohio domiciled mutual holding company that was formed in 2000.

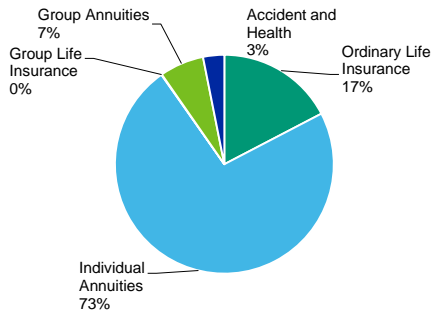
W&SFG also has operations that include a registered broker-dealer, Touchstone Securities, Inc. and W&S Brokerage Services, Inc.; investment advisory affiliates, Fort Washington Investment Advisors, Inc. and Touchstone Advisors, and a real estate management affiliate, Eagle Realty Group, LLC. In January 2022, W&SFG completed the acquisition of Fabric Technologies, Inc. which enhances the company's digital platform.

Exhibit 3  
Simplified Organizational Chart



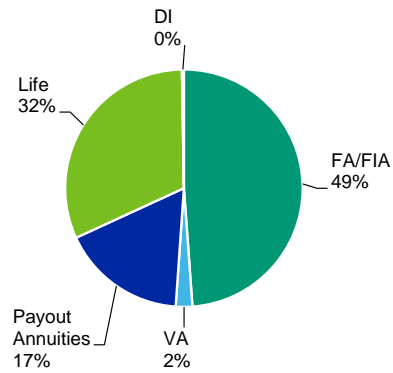
Source: Moody's Ratings and company filings

Exhibit 4  
Individual annuities represent a majority share of total premiums in 2023



Source: Company YE 2023 statutory filings

Exhibit 5  
Majority of inforce reserves from individual life and fixed annuities



Source: Company YE 2023 statutory filings

## Detailed credit considerations

Moody's rates W&SFG's principal operating companies Aa3 for IFS, which is in line with the adjusted scorecard-indicated outcome of Moody's insurance financial strength scorecard.

### Insurance financial strength rating

The key factors currently influencing the rating and outlook are:

#### **Market position & brand: Strong annuity sales improve market share; Gerber Life adds a strong brand**

W&SFG is a long-established insurer in the US life and annuity markets although a modest market position relative to more formidable national insurers and financial institutions. It has consistently been a top player in the bank fixed annuity market and has a strong position in the sale of immediate annuities. The company also distributes its annuities through multiple channels that include: fixed indexed annuity (FIA) through broker – dealers and independent marketing organizations (IMOs), an institutional markets business focused on Pension Risk Transfer (PRT) solutions, and single premium immediate annuities, market value adjusted annuities and deferred income annuities through RIA channels. Overall annuity and life insurance sales achieved a record of \$10.9 billion in 2023, driven by \$8.7 billion of annuity sales including \$601 million of PRT sales. While annuity sales growth has benefited from a higher interest rate environment, annuity sales could moderate as rates stabilize or decline in 2025. Nevertheless, sales uncertainty is mitigated through strong distribution channels.

The complementary nature of a DTC focused life insurance business enhances W&SFG's current life insurance presence and financial wellness strategy, and the company's overall market position and distribution capabilities. Gerber Life adds a strong brand and approximately \$4.7 billion of life insurance reserves providing W&SFG an industry leading position in the DTC channel in the US which it leverages across its organization.

Given the company's balance of strong annuity and life insurance sales, broader product offering, and solid initiatives to expand nationally, we raise the adjusted factor score to Aa from the unadjusted A.

#### **Distribution: Diverse and productive distribution network, in addition to career agency**

W&SFG uses a diverse blend of distribution channels, including both third-party channels (e.g., banks, wirehouses, and institutional intermediaries), and a career agency force at WSLIC, which tends to create better policy persistency. Gerber Life continues to prioritize selling through its DTC platforms. In addition, younger consumers continue to show a strong preference for direct digital interaction which bodes well for the company's DTC lead generation and a heightened consciousness of the significance of life insurance protection. Overall, the DTC platform accounted for approximately 25% of life insurance sales in 2023. Diversified distribution channels allows the company to maintain sales levels regardless of market conditions. W&SFG's preferred positions with RIAs including Fidelity Investments, its independent channel with increasing sales of indexed universal life, and whole life through its captive agents and independent agents are positive attributes that could mitigate macroeconomic deterioration. We believe that the company's distribution control, together with its diverse distribution network, is consistent with the distribution profile of an Aa-rated company, in line with the Aa unadjusted score.

#### **Product focus and diversification: Good mix of products with a balanced risk profile**

W&SFG has good product diversification and its main lines of business are life insurance and annuities focused on protection, accumulation and asset management products. Total annuity reserves account for approximately two thirds of total statutory reserves and variable annuity reserves account for \$1.2 billion or 2%, representing a modest amount of total statutory reserves. Total life reserves are approximately one third or approximately \$17.3 billion of total reserves as of December 31, 2023. In the Protection segment, W&SFG's strong underwriting and career agency distribution has led to a history of favorable mortality experience and stable persistency levels.

In the annuity segment, the company experienced extremely strong annuity sales in 2023 of \$8.7 billion driven by fixed annuity sales given the higher interest rate environment. Moody's expects further sales growth in 2024 and W&SFG to effectively manage its mix of business to avoid a material shift towards higher risk products. As a result, we have raised the adjusted score for this factor to A from Baa.

**Asset quality: Underlying investment quality remains solid; some higher-risk holdings relative to the industry**

W&SFG's ratio of goodwill and intangibles as a percent of shareholders' equity (excluding AOCI) decreased modestly to 32.2% at YE 2023, as intangible assets slightly decreased and equity increased. W&SFG's ratio of high risk assets (HRA) as a percent of shareholders' equity (excluding AOCI) remained level with the prior year at 95.5% as of YE 2023. The company typically has a practice of holding high risk assets as long-term investments and we view these investments differently than companies with active HRA purchases. Moody's [projects](#) global speculative-grade corporate default rate will fall to 4.0% by the end of 2024 before easing to 2.8% by August 2025. A moderate pessimistic scenario assumes increasing defaults to around 5.1%, and the severe pessimistic scenario assumes increasing defaults to around 8.5% by August 2025. W&SFG has a \$7.2 billion commercial mortgage loan (CML) portfolio as of YE 2023. Excluding its home office, it has a below industry-average exposure to office properties. The CML portfolio is 98% investment grade and has good LTV and DSCR ratios. The CML portfolio has seen almost zero impairments over the past 20 years.

In a stress investment scenario, we believe W&SFG stress investment losses to be manageable compared to its peers as a percentage of general account investments. Given our assessment of stress losses, we raise the adjusted score for this factor to Aa from an unadjusted score of A.

**Capital adequacy: Strong capital levels, but equity portfolio adds volatility**

WSLIC's unadjusted scorecard metric as measured by shareholders' equity to assets is consistent with our expectations for Aaa-rated companies. We view NAIC CAL RBC ratio as a more accurate measure of capital adequacy for life insurers and WSLIC's year-end 2023 consolidated NAIC CAL RBC ratio was strong at 435% (up from approximately 416% at December 31, 2022). We expect the RBC ratio to be in the 450%-500% range at year-end 2024.

The company's regulatory capital levels are viewed as conservative given the absence of offshore reinsurance or any capital relief mechanisms including Regulation XXX/AXXX reinsurance captives. W&SFG on a stand-alone basis holds approximately \$600 million of cash and other assets as of December 31, 2023, which are available to contribute, if necessary, to the operating entities. However, WSLIC's sizable portfolio of equity securities relative to shareholders' equity, adds volatility and diminishes somewhat the quality of that capital. The concentration of HRAs, and the potential risk from investment losses, will continue to pressure RBC ratios in 2024. Given the level of HRAs, we adjust the score for this factor to Aa down from the unadjusted Aaa factor score.

**Profitability: Good profitability supported by business growth**

W&SFG's profitability has historically been good and stable, consistent with A-rated peers. The company's 5-year ROC excluding AOCI is in the A rating category on an unadjusted basis, at 5.5% in 2023, in line with the prior year. The company has a long track record of producing capital gains that benefits the ROC ratio offset by the strong levels of capital which drag down the ROC ratio. Even though the historical ROC ratios have been good, when you exclude net capital gains/losses, returns have been modest and lower than industry averages.

W&SFG's GAAP consolidated pre-tax earnings increased to \$978 million in 2023 compared to a pre-tax loss of \$93 million the prior year. This was primarily due to net investment gains improving to \$283 million in 2023 from a net investment loss of \$633 million in 2022, as the portfolio rebounded from decreases in the carrying value of equity and debt securities caused by rising interest rates. Core operating gain grew to \$651 million in 2023 from \$509 million in 2022. We expect earnings to grow in 2024 as the company's business continues to expand.

Given the prospective ROC profile is expected to remain in the A level we raise the adjusted factor score to A from the unadjusted scorecard result of Baa.

**Liquidity and asset/liability management: Robust liquidity and stable liability profile**

WSLIC's liquidity is very strong based on the unadjusted scorecard metric of liquid assets to liquid liabilities, consistent with a Aa rated insurer. This is driven by the company's liability profile, of which a significant component is home service life insurance business, consisting of seasoned and highly persistent policies that represent a stable liability structure. We note that the company could be exposed to disintermediation risk, since interest sensitive annuities make up over 40% of the company's reserves. However, W&SFG anticipates the potential for elevated lapses and does have access to a \$500 million credit facility (of which \$150 million was

outstanding at YE 2023) and strong holding company liquidity. Furthermore, as a member of the Cincinnati FHLB and FHLB New York, W&SFG's operating companies collectively have a borrowing capacity of about \$1.15 billion available as of Q2 2024. As a result, we maintain this factor consistent with the unadjusted scorecard result of Aa.

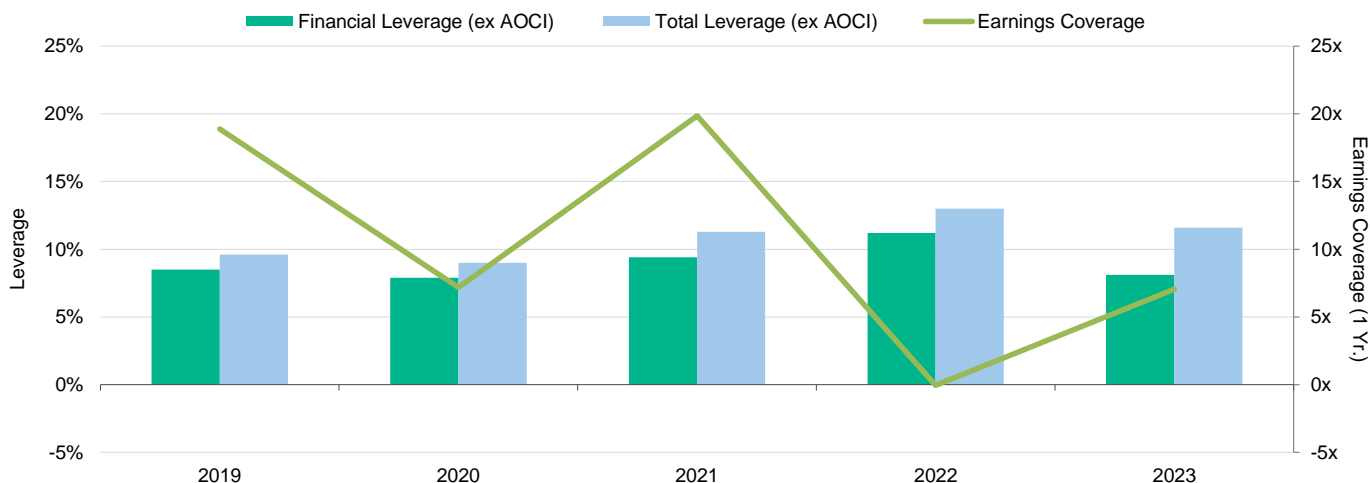
**Financial flexibility: Very modest leverage and strong coverage ratios**

W&SFG's financial flexibility is excellent. The group's adjusted financial leverage ratio is very modest with adjusted financial leverage and total leverage historically lower than 10%. Adjusted financial leverage and total leverage excluding AOCI were 8.1% and 11.6% respectively as of December 31, 2023, lower than most peers and in-line with our current ratings. Earnings coverage and cash flow coverage also continue to be very strong with five year averages of 10.6x and 23.5x, respectively.

Going forward, we expect W&SFG to remain relatively conservative in its approach to leverage and coverage and maintain similar levels through 2024 and into 2025. W&SFG has consistently displayed a strong ability to internally grow the capital necessary to fund its businesses. Mitigating these strong metrics, however, is W&SFG's lack of access to the equity capital markets as a non-public mutual holding company, and its lack of a strong presence in the debt capital markets. Therefore, we position the financial flexibility factor score at Aa, same as the unadjusted scorecard result.

Exhibit 6

**Financial and total leverage continue to remain at low levels**

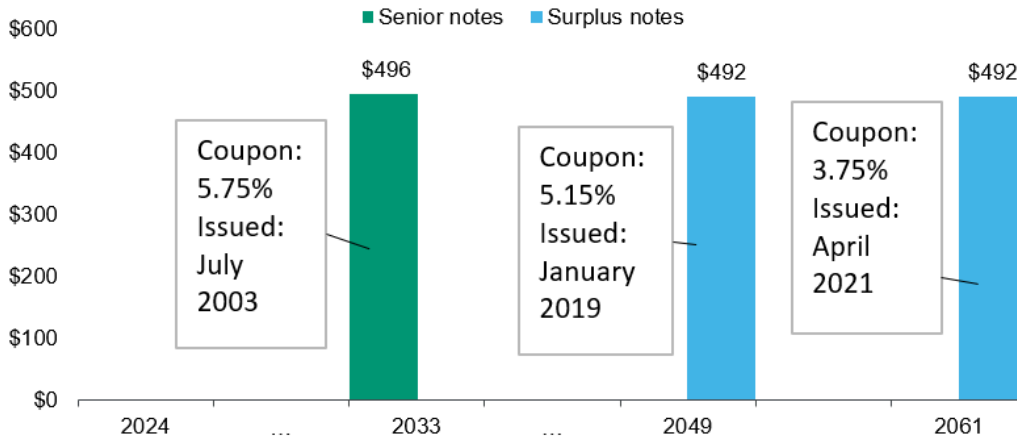


Source: Moody's Ratings and company filings

**Liquidity analysis**

W&SFG's debt consists of \$496 million of 5.75% senior notes maturing in 2033. In addition, WSLIC has \$1.0 billion of surplus notes outstanding, consisting of \$500 million (5.15% coupon) due in 2049, and \$500 million (3.75% coupon) due in 2061. The companies have ample cash and liquid resources to meet annual interest payments on these notes. On a stand-alone basis, W&SFG has liquidity consisting of cash and other assets of approximately \$600 million at December 31, 2023 if needed to meet annual interest payments on the senior notes of approximately \$29 million. WSLIC's dividend capacity for 2024 is approximately \$703 million, while Lafayette's dividend capacity is approximately \$46 million in 2024. WSLIC paid a \$245 million dividend to W&SFG in 2023, while LLIC did not pay any dividends.

Exhibit 7  
Next debt maturity occurs in 2033



Source: Moody's Investors Service and company filings

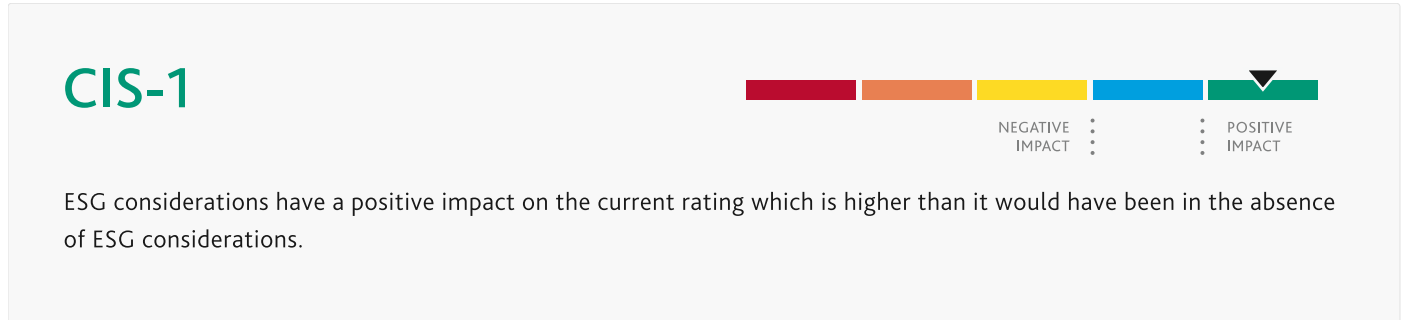
### Support and structural considerations

The spread between W&SFG's senior unsecured debt rating and the IFS rating of WSLIC and its life insurance subsidiaries is three notches. This is consistent with Moody's typical notching for a simple US insurance holding company structure.

### ESG considerations

#### Western & Southern Financial Group, Inc.'s ESG credit impact score is CIS-1

Exhibit 8  
ESG credit impact score

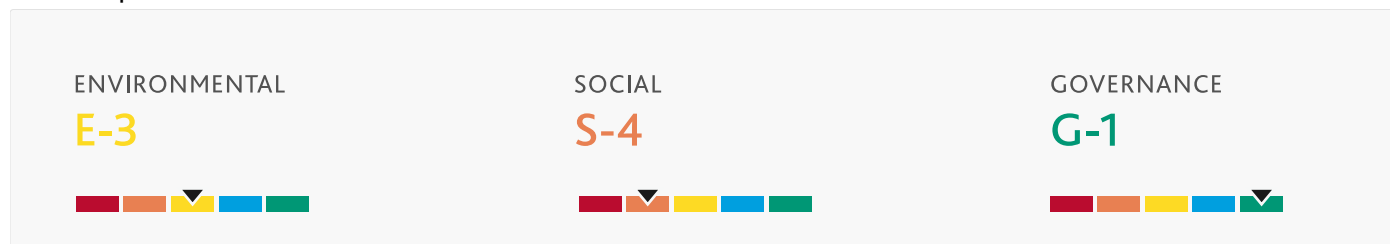


Source: Moody's Ratings

Western & Southern Financial Group, Inc's ESG Credit Impact Score is positive (**CIS-1**). The score reflects a positive impact of the insurer's overall governance profile, which includes its conservative risk and governance practices stemming from its mutual holding company ownership structure. These factors offset its exposure to environmental and social risks, in particular carbon transition, customer relations, and societal and demographic risks.

Exhibit 9

## ESG issuer profile scores



Source: Moody's Ratings

**Environmental**

Western & Southern Financial Group has exposure to carbon transition risk through the long-duration assets held in its investment portfolio and inherent asset leverage, while emerging stakeholder focus on environmental stewardship in its investment portfolio gives rise to strategic and reputational risk. This risk is mitigated by the group's portfolio risk management capabilities and its developing focus on managing climate risk.

**Social**

Western & Southern Financial Group faces social risks. In particular, the insurer's retail customer focus and its increasing adoption of digital channels expose it to data security breach & customer privacy risks which are mitigated by a strong IT framework, including sharing information with regulators and government entities. The group's social risk exposure also stems from its demographic and societal trends, including longer lifespans and aging populations, will affect retirement and estate planning products, as well as the pricing of life and health risks as insurers manage mortality, longevity and morbidity risks.

**Governance**

Western & Southern Financial Group's governance is a positive factor. The group benefits from strong governance practices, seasoned and stable management with a successful track record, and prudently managed financial policy. The risk management function has shown a conservative and proactive stance. The group has a mutual holding company organizational structure that contributes to reducing business complexity which lowers its governance risk and aligns management's interests with those of its stakeholders - policyholders, creditors, and the organization.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moody's.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

## Rating methodology and scorecard factors

Exhibit 10

### Rating Factors

Financial Strength Rating Scorecard [1][2]	Aaa	Aa	A	Baa	Ba	B	Caa	ScoreAdj	Score
Business Profile								A	Aa
<b>Market Position and Brand (15%)</b>								A	Aa
-Relative Market Share Ratio			X						
<b>Distribution (10%)</b>								Aa	Aa
-Distribution Control			X						
-Diversity of Distribution		X							
<b>Product Focus and Diversification (10%)</b>								Baa	A
-Product Risk				X					
-Life Insurance Product Diversification			X						
Financial Profile								Aa	Aa
<b>Asset Quality (10%)</b>								A	Aa
-High Risk Assets % Shareholders' Equity ex AOCI			95.5%						
-Goodwill & Intangibles % Shareholders' Equity ex AOCI			32.2%						
<b>Capital Adequacy (15%)</b>								Aaa	Aa
-Shareholders' Equity % Total Assets	12.6%								
<b>Profitability (15%)</b>								Baa	A
-Return on Capital (5 yr. avg.) ex AOCI			5.5%						
-Sharpe Ratio of ROC (5 yr.) ex AOCI				128.4%					
<b>Liquidity and Asset/Liability Management (10%)</b>								Aa	Aa
-Liquid Assets % Liquid Liabilities		X							
<b>Financial Flexibility (15%)</b>								Aa	Aa
-Financial Leverage ex AOCI		8.1%							
-Total Leverage ex AOCI		11.6%							
-Earnings Coverage (5 yr. avg.)			10.6x						
-Cash Flow Coverage (5 yr. avg.)	23.5x								
Operating Environment								Aaa - A	Aaa - A
Preliminary Standalone Outcome								A1	Aa3

[1] Information based on US GAAP financial statements as of fiscal year ended December 31, 2023. [2] The Scorecard rating is an important component of the company's published rating, reflecting the standalone financial strength before other considerations (discussed above) are incorporated into the analysis.

Source: Moody's Ratings

## Ratings

Exhibit 11

Category	Moody's Rating
<b>WESTERN &amp; SOUTHERN FINANCIAL GROUP, INC.</b>	
Rating Outlook	STA
<b>WESTERN AND SOUTHERN LIFE INSURANCE COMPANY</b>	
Rating Outlook	STA
Insurance Financial Strength	Aa3
<b>WESTERN-SOUTHERN LIFE ASSURANCE COMPANY</b>	
Rating Outlook	STA
Insurance Financial Strength	Aa3
<b>COLUMBUS LIFE INSURANCE COMPANY</b>	
Rating Outlook	STA
Insurance Financial Strength	Aa3
<b>INTEGRITY LIFE INSURANCE COMPANY</b>	
Rating Outlook	STA
Insurance Financial Strength	Aa3
<b>NATIONAL INTEGRITY LIFE INSURANCE CO.</b>	
Rating Outlook	STA
Insurance Financial Strength	Aa3

Source: Moody's Ratings

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