



BEST'S COMPANY REPORT



NATIONAL WESTERN LIFE INSURANCE COMPANY

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Website: www.nationalwesternlife.com



Best's Credit Rating Effective Date

August 30, 2022

Best's Country Risk Reports Utilized

[Brazil - CRT - 4](#)

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Information

[Best's Credit Rating Methodology](#)

[Guide to Best's Credit Ratings](#)

[Market Segment Outlooks](#)

Financial Data Presented

The financial data in this report reflects the most current data available to the Analytical Team at the time of the rating. Updates to the financial exhibits in this report are available here: [Best's Financial Report](#).

National Western Life Insurance Company

AMB #: 006811 | **NAIC #:** 66850 | **FEIN #:** 84-0467208

Ultimate Parent: AMB # 046134 - National Western Life Group, Inc.

Best's Credit Ratings

Financial Strength Rating (FSR)

A
Excellent
Outlook: Stable
Action: Affirmed

Issuer Credit Rating (ICR)

a
Excellent
Outlook: Stable
Action: Affirmed

Assessment Descriptors

Balance Sheet Strength	Strongest
Operating Performance	Adequate
Business Profile	Neutral
Enterprise Risk Management	Appropriate

Rating Rationale

Balance Sheet Strength: **Strongest**

- The company maintains the strongest level of risk-adjusted capitalization as measured by Best's Capital Adequacy Ratio (BCAR).
- The investment portfolio has a low percentage of high-risk assets offset in part by significant holdings of NAIC class 2 bonds, which is following the industry trend to generate higher yields.
- Product reserves are heavily concentrated in fixed indexed annuities. Risk was lessened with utilization of a reinsurance agreement with Prosperity Reinsurance.

Operating Performance: **Adequate**

- The company has realized consistently positive earnings.
- There was an increase in sales starting in 2020 after several years of declining sales in annuities and international life.
- Spreads have been declining due to lower investment yields in a low interest rate environment.

Business Profile: **Neutral**

- The company's mix of existing business includes both domestic and international business although both in-force and new business blocks are weighted towards domestic and annuities business.
- Disengaged markets make up all of the in-force international life insurance revenue.
- The company faces intense competition in the fixed indexed annuity market, which composes a high percentage of sales.

Enterprise Risk Management: **Appropriate**

- National Western Life is exposed to elevated regulatory risk due to domestic fixed indexed annuity and international life insurance exposures.
- A formal ERM framework has been established in line with industry standards.
- The company utilizes an effective hedging program to mitigate fixed indexed annuity risk.

Outlook

- The stable outlooks reflect the expectation that the company will maintain a balance sheet strength assessment in the strongest range over the intermediate term, supported by risk-adjusted capitalization that is expected to remain at the strongest level, as measured by BCAR, while maintaining continued long-term profitability.

Rating Drivers

- A negative rating action could occur if there is an unfavorable trend in operating earnings.
- A negative rating action could occur if there is a material decline in risk-adjusted capitalization.

Credit Analysis

Balance Sheet Strength

Capitalization

NWLIC maintains the strongest level of risk-adjusted capitalization given its current business, insurance, and investment risks. The significant growth in interest-sensitive liabilities over the last several years, driven by indexed annuity deposits, generally requires significant capital to support policyholder obligations. The company's capital base has been supported by its overall profitable statutory net operating performance, a high quality fixed-income investment portfolio, strong cash flow analytics and a robust asset-liability matching program. Statutory capital had reported favorable growth in recent years. Capital has grown at a 5% rate over the past five years. Additionally, the formation of the parent holding company, and related transfer of several former NWLIC subsidiaries, provides additional financial flexibility to the organization and lowers the capital requirements for NWLIC.

On December 31, 2020, National Western entered into an annuity reinsurance agreement with Prosperity Reinsurance, in a transaction covering approximately \$1.7 billion in fixed annuity reserves. This covered much of National Western's higher guaranteed rate annuities and is expected to reduce overall product risk and increase investment spreads. The deal increased NWLIC's RBC ratio by approximately 200-250%

Balance Sheet Strength (Continued...)

Asset Liability Management - Investments

NWLIC's investment portfolio is viewed as lower risk compared to industry averages due to the modest allocations to higher risk assets, including below investment grade bonds and equities. Additionally, the equity securities are almost entirely its ownership of subsidiary entities. The company manages the portfolio based on an asset-liability matching program, attempting to limit the impact of a change in interest rates given the significant proportion of reserves related to annuities. The invested asset portfolio is comprised primarily of investment grade bonds. However, A.M. Best notes that the allocation to NAIC class 2 bonds has generally increased over the past few years and is above industry averages.

NWLIC does not purchase below investment grade bonds, but rating downgrades have resulted in modest exposure. The bond portfolio is well-diversified among government agency issues, corporate obligations, public utility securities and U.S. Government debt. NWLIC has been increasing its allocation to commercial mortgage loans in recent years to support yields and its duration matching program, although the allocation remains well below industry averages. The commercial mortgage loan portfolio is comprised of primarily income-producing properties such as shopping centers, freestanding retail stores, office buildings, industrial and sales or service facilities, selected apartment buildings, hotels, and health care facilities. Additionally, NWLIC holds a sizable notional amount of derivatives due to the index call options used to hedge the equity return exposure on the indexed life and annuity policies. The company purchases options through several counterparties, and maintains collateral agreements to limit its net exposure.

Reserve Adequacy

NWLIC holds conservative reserves, approximately \$300 million in AXXX reserves.

Holding Company Assessment

NWLIC and Ozark make up over 80% of the capital under the holding company. There is no debt held at the holding company level.

Operating Performance

Consolidated statutory and GAAP earnings have been consistently positive in recent years, although statutory earnings are impacted by the mark-to-market volatility of derivative hedges. Earnings have primarily been supported by the international life and annuity segments, as domestic life has recorded statutory losses and modest GAAP earnings. Premium trends have declined in recent years, which is partially reflective of the strategic reduction in fixed annuities in the low interest rate environment and the decision to stop accepting life business from residents in international markets. Despite the decision to stop selling international life business a significant portion of total company premiums are related to international business renewal premiums. However, A.M. Best notes that a significant part of NWLIC's annuity sales are indexed annuities in qualified plans.

Historical under-performance of the domestic life block, relative to the international and annuity segments, has been driven by the expense strain associated with new business growth. With the decline in new premiums as well as the continued increase in the scale of the renewal block, earnings from the domestic segment have improved. International life continues to benefit from strong persistency and favorable pricing that support stable earnings trends, however, the company's decision to stop accepting applications from residents in international markets is expected to impact premium trends in the near-term. The annuity segment's profitability is a result of the investment performance relative to its crediting rates, which have been historically good as the company effectively manages credits rates in the continued low interest rate environment.

Business Profile

National Western Life Insurance Company (NWLIC) is a wholly owned subsidiary of National Western Life Group, Inc. (NWLGI). Effective October 1, 2015, NWLGI replaced NWLIC as the publicly traded entity and the prior shareholders of NWLIC own corresponding shares in NWLGI. NWLIC is licensed to sell life insurance and annuity products in 49 U.S. states (excluding New York), the District of Columbia, various U.S. territories or possessions, and Haiti. NWLIC does not maintain international operations, but until a few years ago it previously accepted applications sent to its Austin, TX home office from residents of various countries in South America, the Caribbean, Eastern Europe, and Asia.

NWLIC's domestic operation focuses on the middle and upper-middle income markets, offering a full array of traditional life insurance products, including universal life insurance, term life and whole life, and annuities. The equity indexed universal life product (EIUL) portfolio has been a steady provider of domestic ordinary life sales over the past several years. Domestic annuity products are sold

Business Profile (Continued...)

both on a tax qualified and nonqualified basis and include flexible premium deferred annuities (FPDA), single premium deferred annuities (SPDAs), equity-indexed annuities (EIAs), and single premium immediate annuities (SPIAs).

While NWLIC has ceased accepting new international insurance applications, the company processed international insurance applications for over 50 years, and currently maintains a significant inforce block of business. A.M. Best recognizes NWLIC's international life segment as a key contributor to earnings, as well as offering diversification to its risk profile. NWLIC's international life operations focused on foreign nationals in upper socioeconomic classes that had substantial financial resources by offering fixed indexed universal life, universal life, whole life, interest sensitive whole life, and term life denominated in U.S. dollars. A.M. Best notes historical claims experience due to natural causes has been similar to that in the U.S., principally due to the relative wealth and subsequent access to quality medical care of individuals insured. However, historical claims experience due to unnatural causes (accident and homicide) has been somewhat higher than U.S. claims experience and the international products are priced for the extra mortality.

NWLIC markets and distributes products domestically through independent national marketing organizations (NMOs) who assist NWLIC in recruiting, contracting, and managing independent agents. The company continues to recruit additional distributors while also exploring alternative distribution channels such as partnerships with banks and broker-dealers. Additionally, as part of its strategic focus in the U.S., NWLIC has shifted the oversight of non-English speaking clientele previously served by its international marketing staff to its Culturally Diverse Marketing group to utilize its bi-lingual expertise from its Latin and South American and Asian businesses. NWLIC was the first company to submit and receive approval for a bi-lingual application in 2017.

In addition to its life insurance business, NWLIC has various non-insurance subsidiaries which have only modest impact on NWLIC's consolidated financial operations. The Westcap Corporation (Delaware) is a real estate management company managing various commercial real estate investments. NWL Financial, Inc. (Nevada) owns various non-Texas sourced investments such as preferred stock, common stock, and municipal bonds. NWLSM, Inc. (Nevada) holds investments in municipal bonds as well as the life interest in the Libbie Shearn Moody Trust. Several other subsidiaries were transferred to the parent holding company through stock dividends.

NWLIC acquired Ozark National Life in January 2019, which has historically generated steady positive operating earnings. Ozark uses the Seminar Dinner System to sell primarily ordinary life business (whole life) in rural areas.

Enterprise Risk Management

NWLIC has developed a comprehensive enterprise risk management (ERM) infrastructure and continues to update and implement risk management techniques throughout the organization. In 2016, the company formalized its risk management process by establishing a Risk Management Committee (RMC) and identifying a Chief Risk Officer (CRO). Supporting the RMC is a Risk Management unit which coordinates the activities of various sub-committees focused on monitoring specific risk categories including: ALM, Product Development, Disclosure, Compliance, and Underwriting. The company has established board-approved risk tolerances and constraints which are monitored frequently, particularly within the higher risk international market, and continually analyzes potential emerging risks.

Reinsurance Summary

NWLIC reinsures 20% of inforce life insurance business with highly rated counterparties (SCOR, RGA, Hannover Life). Effective December 31, 2020, the company entered into a funds withheld coinsurance reinsurance agreement which included inforce fixed rate annuities approximating \$1.7 billion in reserves.

Environmental, Social & Governance

AM Best considers NWLIC's exposure to material environmental, social and governance (ESG) risks to be low. The company operates in an environment where its underwriting activities have low exposure to climate risk, and its underwriting and investment profiles are not exposed to assets and industries considered by some to be problematic. Presently ESG factors are unlikely to impact the credit quality of the company over the short-term. There are no regulatory requirements relating to ESG, although the company regularly monitors developments to ensure its practices are compliant.

Financial Statements

	6-Months		Year End - December 31			
	2022		2021		2020	
Balance Sheet	USD (000)	%	USD (000)	%	USD (000)	%
Cash and Short Term Investments	428,067	4.0	618,384	5.7	483,558	4.5
Bonds	8,844,896	83.0	8,753,075	81.3	9,005,974	84.2
Preferred and Common Stock	485,939	4.6	499,153	4.6	495,139	4.6
Other Invested Assets	721,006	6.8	747,709	6.9	566,216	5.3
Total Cash and Invested Assets	10,479,908	98.4	10,618,321	98.6	10,550,886	98.6
Premium Balances	4,966	...	4,223	...	4,132	...
Net Deferred Tax Asset	54,638	0.5	41,529	0.4	41,789	0.4
Other Assets	112,391	1.1	107,610	1.0	104,515	1.0
Total General Account Assets	10,651,903	100.0	10,771,683	100.0	10,701,321	100.0
Total Assets	10,651,903	100.0	10,771,683	100.0	10,701,321	100.0
Net Life Reserves	7,349,485	69.0	7,361,640	68.3	7,196,099	67.2
Net Accident & Health Reserves	119	...	308	...	183	...
Liability for Deposit Contracts	18,664	0.2	15,306	0.1	7,165	0.1
Asset Valuation Reserve	119,141	1.1	115,825	1.1	112,098	1.0
Other Liabilities	1,614,955	15.2	1,698,430	15.8	1,880,613	17.6
Total General Account Liabilities	9,102,365	85.5	9,191,507	85.3	9,196,158	85.9
Total Liabilities	9,102,365	85.5	9,191,507	85.3	9,196,158	85.9
Capital Stock	2,500	...	2,500	...	2,500	...
Paid-In and Contributed Surplus	41,563	0.4	41,563	0.4	41,563	0.4
Unassigned Surplus	1,505,475	14.1	1,536,112	14.3	1,461,100	13.7
Total Capital and Surplus	1,549,539	14.5	1,580,176	14.7	1,505,163	14.1
Total Liabilities, Capital and Surplus	10,651,903	100.0	10,771,683	100.0	10,701,321	100.0

Source: BestLink® - Best's Financial Suite

National Western Life Insurance Company

Last Update

October 13, 2022

Identifiers

AMB #: 006811

NAIC #: 66850

FEIN #: 84-0467208

LEI #: 6UHI53KIJKOJMJ34UR03

Contact Information

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Financial Data Presented

The financial data in this report reflects the most current data available at the time the report was printed.

Operations

Date Incorporated: July 16, 1956 | **Date Commenced:** June 28, 1957

Domiciled: Colorado, United States

Licensed: (Current since 05/16/2007). The company is licensed in the District of Columbia, American Samoa, Guam, Northern Mariana Islands, Puerto Rico, U.S. Virgin Islands, AL, AK, AZ, AR, CA, CO, CT, DE, FL, GA, HI, ID, IL, IN, IA, KS, KY, LA, ME, MD, MA, MI, MN, MS, MO, MT, NE, NV, NH, NJ, NM, NC, ND, OH, OK, OR, PA, RI, SC, SD, TN, TX, UT, VT, VA, WA, WV, WI and WY. The company is also licensed in the Republic of Haiti.

Business Type: Life, Annuity, and Accident

Organization Type: Stock

Marketing Type: Independent Agency

Financial Size: XIV (\$1.5 Billion to \$2 Billion)

Best's Credit Ratings

Rating Relationship

AM Best Rating Unit: 006811 - National Western Life Insurance Company

Refer to the [Best's Credit Report for AMB# 006811 - National Western Life Insurance Company](#) for details regarding the rating rationale, credit analysis, and financial exhibits available at the time the credit analysis was performed.

Best's Credit Rating History

AM Best has assigned ratings on this company since 1964. In our opinion, the company has an Excellent ability to meet their ongoing insurance obligations and an Excellent ability to meet their ongoing senior financial obligations.

The following are the most recent rating events, for longer history refer to [Rating History](#) in BestLink:

Best's Credit Rating History (Continued...)

Effective Date	Best's Financial Strength Ratings			Best's Long-Term Issuer Credit Ratings		
	Rating	Outlook	Action	Rating	Outlook	Action
Current -						
Aug 30, 2022	A	Stable	Affirmed	a	Stable	Affirmed
Aug 10, 2021	A	Stable	Affirmed	a	Stable	Affirmed
Aug 20, 2020	A	Stable	Affirmed	a	Stable	Affirmed
Aug 9, 2019	A	Stable	Affirmed	a	Stable	Affirmed
Aug 14, 2018	A	Stable	Affirmed	a	Stable	Affirmed

Management

Officers

- Chairman of the Board, CEO:** Ross R. Moody
- President, COO:** Rey Perez
- CFO, EVP, Treasurer:** Brian M. Pribyl
- EVP, Chief Marketing Officer:** Chad J. Tope
- SVP, Chief Investment Officer:** Natalie U. Anderson
- SVP, Chief Information Officer:** Gregory J. Owen
- SVP, Secretary:** Gina B. Miller (Corporate Counsel & Secretary)
- SVP:** Carlos A. Martinez (Foreign National Distribution)
- SVP:** Steven W. Mills (Policy Administration)
- Vice President, Chief Actuary and Chief Risk Officer:** Joseph J. Hathaway
- Vice President, Controller:** Allison L. Lounsbury
- Vice President:** Paul Caspers (Sales)
- Vice President:** Patrick D. Johnson (Human Resources)
- Vice President:** William Kennedy (Legal)
- Vice President:** Jie Adam Lei (Risk Management)
- Vice President:** D. Chad Mercer (Sales Development)
- Vice President:** David A. Olson (Pricing and Reinsurance)
- Vice President:** Cynthia L. Pearce-Barrick (Marketing & Sales Operations)
- Vice President:** David W. Weaver (Mortgage Loans)
- Vice President:** Robert L. Woodard (Investments)
- Medical Director:** Carlos Gray, M.D.

Directors

- David S. Boone
- Stephen E. Glasgow
- Ross R. Moody (Chairman)
- Elvin J. Pederson
- Rey Perez
- Brian M. Pribyl
- Todd Wallace (Director)

A Best's Financial Strength Rating opinion addresses the relative ability of an insurer to meet its ongoing insurance obligations. The ratings are not assigned to specific insurance policies or contracts and do not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of the insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. A Financial Strength Rating is not a recommendation to purchase, hold or terminate any insurance policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser.

A Best's Issue/Issuer Credit Rating is an opinion regarding the relative future credit risk of an entity, a credit commitment or a debt or debt-like security.

Credit risk is the risk that an entity may not meet its contractual, financial obligations as they come due. These credit ratings do not address any other risk, including but not limited to liquidity risk, market value risk or price volatility of rated securities. The rating is not a recommendation to buy, sell or hold any securities, insurance policies, contracts or any other financial obligations, nor does it address the suitability of any particular financial obligation for a specific purpose or purchaser.

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