Catholic Financial Life

Operating Company			
Action: Upgrade	**Type**	**Rating**	**Outlook**
Catholic Financial Life	IFSR	A	Stable

Methodology

[Insurer & Insurance Holding Company Global Rating Methodology]

[ESG Global Rating Methodology]

Analytical Contacts

Jack Morrison, Director
+1 (646) 731-2410
jack.morrison@kbra.com

Ethan Kline, Associate
+1 (646) 731-1278
ethan.kline@kbra.com

Peter Giacone, Senior Managing Director
+1 (646) 731-2407
peter.giacone@kbra.com

Rating Summary:

The rating upgrade reflects Catholic Financial Life's (CFL or the Society) continued execution of its business strategy focused on relatively lower risk life products and the company's consistent track record in risk-based capital and surplus growth underpinned by sustained, consistent trends of profitability and balanced earnings. CFL remains fully committed to fraternalism and the support of its members. Overall balance sheet growth, as well as margins and capital trends have generally been favorable relative to fraternal and non-fraternal peer averages. Further, reserves remain generally balanced across life and annuity products and are complemented by an investment portfolio comprised of low-risk, high-quality fixed income securities. Across the past year, the impact of heightened disintermediation risk has been relatively muted and largely mitigated by the implementation of various risk management strategies, such as the adjustment of crediting rates, the introduction of new products and successful internal exchanges.

The Society remains one of the largest Catholic fraternal membership societies in the United States. CFL continues to focus on writing life products and growing membership within its current product offerings supported by ongoing technological enhancements. Demonstrated success in acquiring and/or merging with other fraternals, successfully integrating the in-force blocks of business, and recognizing efficiencies from the added economies of scale remain favorable credit considerations. CFL's corporate governance is strong and enterprise risk management practices are progressive and continue to evolve. Lastly, in KBRA's opinion, CFL's management team remains a strength as it executes its forward-looking growth and technological strategy.

Balancing these credit strengths is an annuity block with a significant but declining portion of contracts subject to withdrawal with minimal or no surrender charges, although this exposure remains mitigated to an extent by generally higher historical persistency. In addition, execution risk persists for planned near-term technology enhancements, specifically with respect to its policy administration system, though current completion timeframes appear to be on track.

Exposure to spread compression within its legacy annuity block has historically been a credit challenge, in KBRA's opinion. Relatively high guaranteed crediting rates, historically low new money rates, and a decreasing trend of earned interest spreads have compressed earnings and profitability. However, historical profitability headwinds related to spread compression on its interest sensitive liabilities have eased driven by the current higher rate environment. Even though CFL's liability profile is approximately 50% life reserves, a sustained higher interest rate environment may enhance earnings power and capital growth of its annuity blocks.

Outlook

The Stable Outlook reflects KBRA's expectation that Catholic Financial Life will maintain strong surplus and risk-adjusted capitalization underpinned by consistent profitability and operating margins. Further, the Outlook incorporates the expectation that CFL will maintain balanced reserves while executing on its strategy to grow life sales relative to a stable expense base. Further, KBRA expects CFL to take prudent actions to maintain favorable earned spreads on its annuity block while limiting other factors which may pressure profitability.

Key Credit Considerations	+/−
Strong Capitalization with Favorable Trends in Capital & Surplus CFL's company action level (CAL) risk-based capital (RBC) position at end-2022 of 561%, an all-time high, is strong and demonstrated growth has been favorable. CFL's balance sheet is of high quality with no financial leverage and minimal use of reinsurance. Over the last five years, total adjusted capital (TAC) has grown at a compound annual growth rate (CAGR) of approximately 7% (15% over the last ten), bolstered by solid, stable operating gains.	+

Balanced Top Line and Reserve Business Mix Has Led to Consistent Profitability CFL's reserve mix remains equally split between life and annuities. All product sales experienced favorable trends through 2019 but growth has somewhat moderated before increasing YTD September 2023. CFL continues to incentivize life business and has been successful in growing annual pay life sales. Recurring operating profitability and earned interest margins facilitated by an efficient cost structure and strategy has supported consistent surplus growth.	+
Conservative, Diversified Investment Portfolio with Minimal High-Risk Assets CFL's investment approach remains focused on bonds (92%) and the portfolio is of high credit quality – about 68% rated in the single-A category or above and minimal non-investment grade securities (less than 2%). Exposure to equities, alternatives, real estate, and high-risk assets relative to capital remain low, especially compared to fraternal as well as non-fraternal peers.	+
Thorough Enterprise Risk Management Framework Established ERM process has fostered improved decision-making. CFL leverages its ERM process in making all strategic decisions and is generally sound in identifying risks, setting risk tolerances and appetites, and guidelines for mitigating risks. Corporate governance remains a priority across all levels of the organization.	+
Well-Established Fraternal with Modernized Corporate Governance CFL is one of the largest Catholic fraternal membership societies in the United States and maintains a sizeable membership base with a highly experienced management team. The strong affinity relationship with its members and attractive value proposition has facilitated high persistency (96-97%) and low lapse rates. CFL has been a leader in the fraternal sector with respect to enhancing/modernizing corporate governance.	+
Successful Partnership-Focused and Acquisition-Oriented Growth Strategy CFL is uniquely positioned among fraternals as an industry consolidator as well as opportunistic in establishing successful partnerships with other fraternals for enhanced and synergized product development to exploit economies of scale. History of successful execution of acquisition-oriented growth strategy.	+
Profitability Headwinds Related to Interest Rates Have Somewhat Eased Though Exposure to Elevated Disintermediation Risk Remains While the interest rate environment changed dramatically during 2022, the lower-for-longer interest rate environment that persisted for many years gave rise to challenges to profitability related to interest sensitive liabilities. CFL's product interest margin/earned spread for its fixed annuities had generally trended downwards across the past few years before trending upwards in 2023. The favorable trend in earned spreads may continue as higher new money rates are sustained. Approximately 68% of CFL fixed annuities have minimum guaranteed rates of 3% or higher as of September 30, 2023, though the weighted average guaranteed rate of the annuity fund balance is approximately 2.9%. Although CFL's liability profile is approximately 50% life reserves, a sustained higher interest rate environment may enhance earnings power and capital growth of its annuity blocks. More recently, the impact of elevated disintermediation has been effectively mitigated.	–/+
Over 70% of Annuities Subject to Withdrawal With Minimal/No Surrender Charge Although contracts issued by fraternals have historically exhibited higher persistency than those written by commercial carriers, 73% of CFL's annuities have minimal (<5%) or no surrender charge protection as of September 30, 2023. However, primarily driven by internal transfers, surrender charge protection has trended favorably from a year prior when approximately over 90% of annuities fund balance had minimal or no surrender charges in place.	–
Declining Membership Trends and Intensifying Competition Consistent with many fraternal peers, CFL's membership continues to experience a net decline. Further, CFL's in-force life insurance and policy count has trended down but has increased YTD September 2023. In the absence of strong organic growth, CFL may be challenged to increase membership solely relying on acquisitions. Additionally, CFL's target market of middle-income families is consistent with that of many commercial carriers as well as other regional fraternals. However, CFL has been successful in growing annual pay life sales (as of October 2023, approximately 70% of life sales are to new members) and the number of new financial members has trended favorably since 2020.	–
Execution Risk Regarding Near-Term Technological Enhancements Digital initiatives and analytics have been a major component of CFL's technology strategy, enabling the organization to adjust quickly. While KBRA notes that CFL has had some delays related to the implementation of its policy administration system, current completion timeframes appear to be on track.	–

Rating Sensitivities

▪ Sustained significant growth in earnings and surplus ▪ Elimination or material reduction of the risk of spread compression on legacy annuity block ▪ Favorable change in risk profile, including further shift in reserve mix or material increase in risk-adjusted capital	+

- Material adverse change in risk profile
- Substantial decline in earnings
- Significant deterioration in capitalization or material decline in asset quality
- Execution risks which unfavorably impact capital or earnings

–

Recent Developments

- CFL has maintained depth and stability in its leadership team year over year. Total employee headcount increased by 15 individuals in 2023, with minimal departures, demonstrating its ability to attract and retain talent.
- CFL continues to identify and execute various strategic initiatives across the organization, particularly within areas of growth and technology. Demonstrated profitability and capital growth positions CFL well for continued investment in its expansion and digital transformation. Over the next year, growth initiatives include further product development, continued enhancement of its digital direct to consumer channel (primarily final expense), and further development of its straight-through processing (STP) term product. Technology initiatives include continued efforts towards a policy administration system (PAS) replacement and other system upgrades.
- Higher interest rates have increased CFL's annuity fund balance vulnerability to disintermediation, though the risk has been well managed. Through September 30, 2023, CFL's fund balance has only decreased by approximately $8 million from year-end 2022 to $671 million. As part of its strategy to mitigate disintermediation, elevated surrenders have been largely offset by new money (launched a SPDA product) and internal exchanges, which have also significantly reduced the percentage of fund balance which is out of surrender.
- Financial results remain favorable as surplus and TAC continue to strengthen. Results through Q3 2023 have generally outperformed budget.

Insurance Entity Financials

Catholic Financial Life						
(in thousands)	**Q3 2023 YTD**	**2022**	**2021**	**2020**	**2019**	**2018**
Total Assets ($000)	$ 1,732,805	$ 1,688,154	$ 1,696,775	$ 1,683,229	$ 1,678,943	$ 1,653,316
Capital & Surplus (C&S) ($000)	$ 137,244	$ 133,771	$ 123,986	$ 114,128	$ 109,241	$ 99,357
Asset Valuation Reserve (AVR) ($000)	$ 14,494	$ 11,879	$ 13,457	$ 10,511	$ 11,822	$ 10,049
Total Adjusted Capital (TAC) ($000)	NA	$ 146,450	$ 138,235	$ 125,438	$ 122,085	$ 110,426
Change in TAC	*NA*	*5.9%*	*10.2%*	*2.7%*	*10.6%*	*11.0%*
C&S to Liabilities	8.6%	8.6%	7.9%	7.3%	7.0%	6.4%
Surplus Notes/TAC	NA	0.0%	0.0%	0.0%	0.0%	0.0%
NAIC RBC (CAL)	NA	561%	540%	550%	531%	475%
BIG Bonds to TAC	NA	17.4%	18.8%	25.6%	14.5%	20.2%
Dividends to Stockholders ($000)	$ -	$ -	$ -	$ -	$ -	$ -
Capital Contributions ($000)	$ -	$ -	$ -	$ -	$ -	$ -
Net Gain From Operations ($000)	$ 7,954	$ 12,515	$ 10,296	$ 9,325	$ 9,689	$ 14,025
Net Income ($000)	$ 8,141	$ 8,919	$ 11,186	$ 13,953	$ 8,677	$ 14,308
Net Investment Yield	4.4%	4.2%	4.1%	4.2%	4.5%	4.5%
Net Return on Avg Admitted Assets w/o Sep Accounts	0.63%	0.53%	0.66%	0.83%	0.52%	0.87%
1 Yr. Oper ROAC&S	8.0%	9.7%	8.6%	8.3%	9.3%	15.0%
% Interest Sensitive Reserves	NA	63.3%	63.6%	63.8%	63.8%	97.1%
% Annuities w/no surrender charge	NA	82.6%	80.6%	77.6%	78.4%	79.7%
Current Liquidity	102.9%	103.2%	103.0%	102.5%	102.5%	102.3%
General Insurance Expenses/Total Revenue	NA	16.4%	15.4%	14.7%	15.4%	14.1%

Note: TAC above is as displayed in the Five-Year Historical Data within the annual statement.

Source: Statutory Financials

Stress Testing

KBRA employed a stress testing approach to assess the impact of adverse scenarios on CFL, including reviewing CFL's asset adequacy analysis, as required by state regulators, and performing an asset stress test. Given its strong risk-adjusted capital position, KBRA believes CFL's financial strength can withstand a range of stress scenarios to either side of the balance sheet.

Historically, CFL has utilized 11 deterministic interest scenarios, including the NY7, and the average of the worst 30% (CTE70) of 200 stochastic scenarios. For 2022, the deterministic interest rate analysis transitioned from the NY7 scenarios to Modern Deterministic Scenarios plus a level interest rate scenario and the CTE70. However, given the transition year, both scenario sets were evaluated for 2022. Using 2022 year-end results, for the 21 deterministic scenarios there were five negative accumulations of present value of surplus after 60 years (from three negative scenarios in ten scenarios last year). The favorable trend in results was primarily driven by the favorable impact of yields and credit spreads from a year prior. Based on the actuarial analysis, no additional reserves were deemed necessary for 2022. KBRA believes the results are driven by the fact that CFL's reserve mix remains well balanced.

KBRA also performed an asset credit stress test on CFL's fixed income portfolio. The results were consistent with the company's current IFSR.

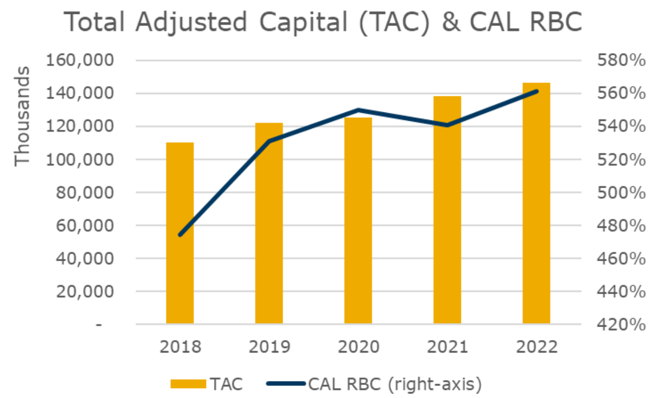
Balance Sheet Management

Quality of Capital/Underwriting Leverage

CFL has exhibited strong and consistent growth in total adjusted capital (TAC). Primarily driven by steady and consistently strong/favorable earnings trends relative to disciplined expense controls, CFL's CAL RBC has significantly strengthened across the last 5 and 10 years. CFL maintains a relatively high and conservative target CAL RBC ratio in the range of 450-750%, which is viewed favorably, especially as CFL continues to move towards the middle to high end of the range. CAL RBC strengthened to 561% at year-end 2022. The observed drop in 2021 (35 points) was directly correlated to the implemented change in NAIC bond factors.

As CFL maintains a conservative balance sheet with no financial leverage or surplus notes and reinsurance utilization is generally low, quality of capital is favorable. The demonstrated, consistent growth in total adjusted capital and general strengthening of risk adjusted capital is also viewed favorably.

Asset growth remains driven by solid operating/asset performance, relatively steady life and annuity premium flows, and favorable earnings trends. CFL remains one of the largest fraternals based on net admitted assets. The rates of growth in surplus and TAC continue to favorably outpace the growth in assets, though capital and surplus to liabilities is just below peer averages.



Source: Statutory Financials

Asset Quality and Investment Risk

CFL continues to utilize outside investment managers to efficiently execute its investment plan. The Board of Directors has ultimate authority over CFL's investment policy and exercises this authority through its Investment Committee, which meets quarterly to review portfolio performance and compliance, among other initiatives such as asset/liability management. In KBRA's view, investment guidelines remain well structured for the organization's size and scope. The investment portfolio remains conservative and is comprised primarily of diversified, high-quality fixed income securities. The vast majority (92%) of CFL's investments are managed by Wellington Management Company, LLP, with additional strategy specific sub-advisors managing the balance. High risk assets to total adjusted capital remains well below the fraternal and non-fraternal peer averages, reflecting CFL's conservative balance sheet and investment risk profile, which KBRA views favorably.

CFL's largest sector exposures are industrials (29%), financials (21%), non-corporates (21%), and utilities (13%). The average credit quality of the portfolio remains single-A, though recent purchases have been higher in credit quality, as well as yield. The Society maintains qualitative and quantitative watch lists. As of June 30, 2023, CFL has immaterial exposure ($9.6 million market value across 4 securities) on its credit-based qualitative watchlist. The quantitative watchlist is formulaic in nature given the impact of rising interest rates on fixed income investments and reflects securities in which market value is less than 85% of book value. This quantitative-based watchlist at June 2023 contained approximately 189 securities ($291.8 million market value compared to $335.2 million at year end; 18 securities are BIG).

CFL's mortgage loan portfolio primarily consists of first mortgage loans on Catholic institutional facilities and commercial real estate loans totaling approximately $45 million. CFL's loans are all secured by first lien mortgages and currently comprise almost 3% of the Society's invested assets and approximately 30% of TAC. CFL's home office building, located in downtown Milwaukee, is one of two direct investments in real estate – reported on the balance sheet at $5.2 million.

Investment Portfolio by Asset Class ($000)						
Asset Class	**2021**	**%**	**2022**	**%**	**3Q23**	**%**
Bonds	1,562,543	93.2%	1,534,910	92.0%	1,583,957	92.5%
Preferred Stocks	-	0.0%	255	0.0%	245	0.0%
Common stocks	20,063	1.2%	26,663	1.6%	30,706	1.8%
Mortgages	33,186	2.0%	43,091	2.6%	44,598	2.6%
Real Estate	5,228	0.3%	5,237	0.3%	5,171	0.3%
Cash & Cash Equivalents	12,491	0.7%	18,863	1.1%	8,280	0.5%
Contract Loans	24,677	1.5%	23,549	1.4%	23,381	1.4%
Derivatives	-	0.0%	-	0.0%	-	0.0%
Other Invested Assets	17,278	1.0%	16,459	1.0%	16,301	1.0%
Receivables for Securities	734	0.0%	-	0.0%	295	0.0%
Securities Lending Reinvested Collateral Assets	-	0.0%	-	0.0%	-	0.0%
Aggregate Write-ins for Invested Assets	-	0.0%	-	0.0%	-	0.0%
Total Cash & Invested Assets	**1,676,200**	**100.0%**	**1,669,027**	**100.0%**	**1,712,934**	**100.0%**

Source: Statutory Financials

Fixed Income Portfolio Quality ($000)						
Class	**2021**	**%**	**2022**	**%**	**3Q23**	**%**
NAIC 1	1,059,456	67.7%	1,041,037	67.8%	1,113,806	70.3%
NAIC 2	478,668	30.6%	469,068	30.5%	454,189	28.7%
NAIC 3	20,807	1.3%	19,075	1.2%	10,179	0.6%
NAIC 4	5,109	0.3%	4,497	0.3%	4,610	0.3%
NAIC 5	-	0.0%	1,906	0.1%	1,209	0.1%
NAIC 6	9	0.0%	9	0.0%	464	0.0%
NAIC 3-6	25,924	1.7%	25,487	1.7%	16,463	1.0%
Total	**1,564,048**	**100.0%**	**1,535,592**	**100.0%**	**1,584,458**	**100.0%**

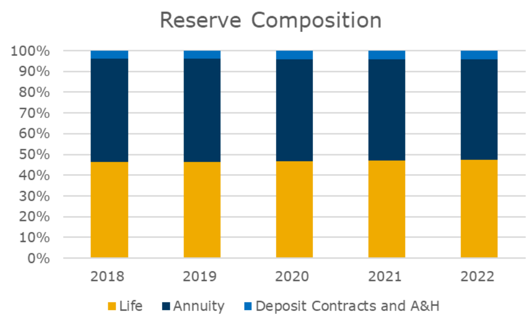
Source: Statutory Financials

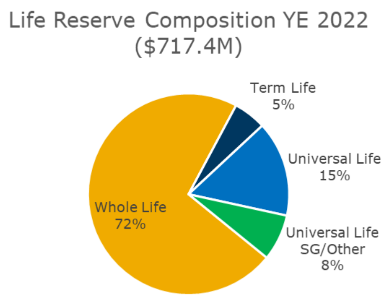
Financial Flexibility and Access to Capital

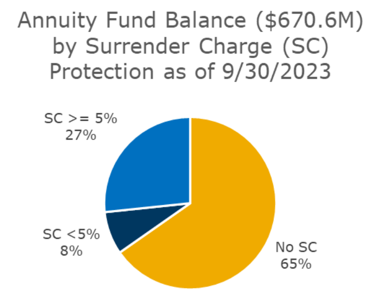
KBRA believes that CFL has strong financial flexibility given its historical trend of profitability and stable liability profile. CFL's operating performance and internal capital generation allows for financial flexibility in funding its own growth initiatives. CFL maintains no debt and all financial obligations are supported by operations. CFL is a member of the Federal Home Loan Bank (FHLB) of Chicago with a current borrowing capacity of approximately $400 million. CFL borrowed $50 million during 2023 in two installments as part of a paired borrowing funding agreement program for spread enhancement. Proceeds have been invested primarily in CLOs – returns have been approximately $1 million.

Liquidity and Asset/Liability Management

CFL's liability structure remains split about evenly between life insurance (47%) and annuity/deposit-type contract (53%) reserves. CFL, like many fraternals, benefits from low life lapse rates due to the strong affinity relationships that members have with the organization. Consequently, the life insurance block is a steady source of long-term earnings for the company, particularly if insurance in force trends upwards. The affinity relationship applies to annuities as well, though disintermediation risk is heightened in the rising rate environment and the majority of fund balance is not under surrender protection.







Source: Statutory Financials

Cash flow testing is conducted annually and CFL's Asset/Liability Management (ALM) Committee meets quarterly. CFL's assets are segregated by product line and asset/liability risks are closely monitored. Under the stochastic analysis for the year-end 2022 asset adequacy analysis, the present value of ending surplus increased approximately $24 million from the prior year results to approximately $54 million.

CFL maintains an asset liability duration tolerance of approximately 1.5 years for both its life and annuity segments. Within the annuities segment, asset duration is well matched to liability duration. On the life segment, CFL is close to maintaining a duration within its tolerance.

Operating Fundamentals

Drivers of Profitability

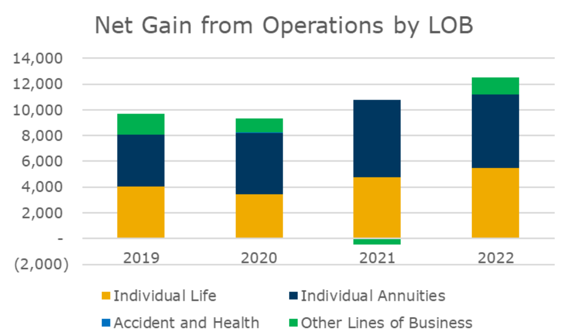
CFL's operating focus remains on growing annual pay life sales and the company has incentivized distribution to achieve this goal. Agent recognition is primarily driven by life production. In KBRA's opinion, stable, consistent life business – particularly whole life, which KBRA views as generally exhibiting a lower risk profile relative to other life products – are among the underlying factors which may lead to increased profitability and further strengthen CFL's reserve mix across the near-to-medium-term.

Historically, CFL has reported healthy annuity spreads on its legacy annuity business though earned spreads had compressed prior to last year as new money rates remained low. Management has been active in lowering the guaranteed minimum rates credited on new contracts and limiting contributions on existing annuities with high crediting rates. KBRA notes that spreads on deferred annuities remain positive and have generally widened across the last year. The impact of disintermediation and elevated surrenders has been largely offset by new money and internal exchanges.

Demonstrated and projected profitability is supported by balanced top line revenue and reserve growth, as well as consistent investment income with limited volatility across the last few years. Top line revenues have consistently been comprised of approximately 60% life premiums, of which the majority is whole life (60%) followed by universal life (27%), and term life (12%). While whole life sales distribution remains incentivized, spreads on its interest sensitive reserves (annuity fund balance of approximately $671 million) have widened. However, KBRA also notes that higher expenses associated with technology initiatives may modestly depress product profitability in the near term.

Consistency of Profitability

Favorably, CFL continues to generate steady, consistent profits from both its life insurance and annuity lines of business. CFL has reported favorable earnings over the last five years on both a pre-dividend and post-dividend basis. Historically, operating earnings have been fairly consistent, generally in the $9-$11 million range, with a few favorable outliers. Net gain from operations is expected to decrease across the near term relative to historical averages as its capital base grows and the Society invests heavily in growth and technology initiatives, including the replacement of its policy administration system. However, it is KBRA's expectation that CFL will remain profitable and execute these initiatives from a relative position of strength, due to demonstrated balance sheet growth.



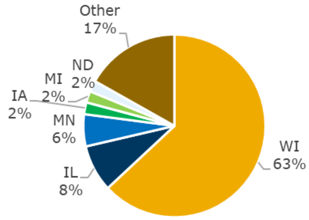
Source: Statutory Financials

Earnings Diversification: Product/Geography

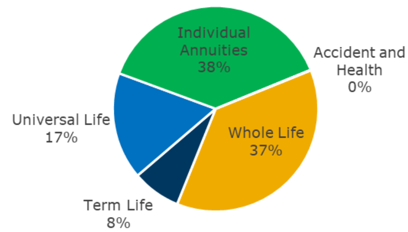
CFL's product diversification, which is largely unchanged year over year, consists of whole life, universal life, term life, and single premium/flexible premium deferred annuities. Whole life and term life represent the bulk of CFL's product mix, as universal life remains largely an accommodation product. CFL has avoided short-sighted operating strategies, such as offering annuities at high credited rates to grow membership and near-term results, and employs a conservative, disciplined approach targeting growth of annual pay life sales that KBRA views favorably relative to its capital position. In KBRA's view, CFL's geographic distribution sufficiently supports the business and capital strategies of the company.

CFL maintains a geographic distribution with most of its business written in the north-central region of the United States.

Schedule T Direct Premiums and Annuity Considerations by State YE2022 ($63.4M)



Net Premiums by Product Type YE2022 ($55.1M)



Source: Statutory Financials

Exposure to Event Risk

CFL is exposed to financial market volatility as well as changes in interest rates and movements in credit spreads, though approximately 60% of reserves are interest sensitive. While CFL is exposed to elements of disintermediation/liquidity risk on its annuity reserves, CFL does not sell equity indexed or variable products and, as a fraternal, benefits from the affinity relationship of its member policyholders.

Credited rates are generally higher than commercial carriers, hence, it is not as likely for a fraternal to experience a "run-on-the-bank" scenario. KBRA notes that a significant portion of annuities are outside of surrender, with approximately 73% of policies at a 5% or below surrender charge. Moderate exposure to event risk is mitigated by CFL's fairly balanced reserve mix of life insurance and annuities and generally steady cash flows from each product, and the effective execution of its disintermediation management strategy across the past year.

Company Profile and Risk Management

Management Profile and Strategy

CFL's management team has broad experience across products, markets, and distribution, as well as organizational depth which should drive the long-term success of the organization. CFL also leverages outside consultants to help facilitate and implement overall strategy.

CFL's primary corporate initiatives remain focused on people, growth, and technology. CFL is committed to recruiting and retaining talent, which supports the overall long-term strength and stability of the organization. An emphasis on growth includes projects focused on distribution and expanding career, broker, and alternative distribution channels, with a continued focus on product expansion and marketing. Lastly, technology and digital innovation remains a key part of its strategy as initiatives include PAS modernization, cyber enhancements, and other system upgrades.

Market Position

For fraternal organizations, the foundation of the membership, principles of the organization, and fraternal benefits are important qualitative factors. Despite being one of the largest Catholic fraternal membership societies in the United States, CFL's market position in the fragmented U.S. life insurance and annuity sectors is modest, even in its largest territories. Across the industry, membership in fraternals has generally declined. Historically, strategic mergers have allowed CFL to somewhat stabilize its membership base. CFL has been able to maintain its competitive, faith-based market niche and generally increase first year direct life premium and maintain total insurance in force though balanced by overall annual membership declines.

Distribution

CFL has actively diversified its channels of distribution over time as historically all production was derived from career advisors. CFL has a small number of captive agents, which is enhanced by a larger number (approximately 300) of independent advisors/brokers. CFL is licensed in 34 states though the majority of premiums are derived from Wisconsin, Illinois, Minnesota, Iowa, and Michigan. Similar to the entire life insurance industry, CFL's distribution is changing and evolving. While committed to career advisors, CFL is expanding brokerage coverage throughout the country and adding new channels through partnerships and direct-to-consumer initiatives.

CFL remains committed to enhancing its targeted digital marketing efforts as well as leveraging technology and new hires to strengthen and diversify its distribution strategy. Demonstrated diversification of distribution across the last few years has contributed to higher annual pay life sales. Recently, CFL launched a new platform for the sale of final expense insurance products and launched a new instant decision platform for the sale of term insurance products.

Risk Management

CFL's risk management practices and enterprise risk management (ERM) framework are clearly defined and leveraged for virtually every strategic business decision. CFL's long-standing risk management framework was developed not only to ensure that risks are identified, quantified, monitored, and managed across the organization, but also to foster improved decision making. The focus of CFL's program is to preserve the financial strength of the organization.

CFL's ERM structure is headed by an ERM Committee that interfaces periodically with the Board level Risk Committee and annually with the full Board of Directors. Risks are not viewed in isolation and are considered while developing CFL's long-term strategic directions and its annual operating plan. CFL's management provides its Board of Directors with measurements of key risk indicators on a monthly basis.

The ERM Committee identifies and monitors the Society's key risks which generally include financial performance, interest rates, technology/cyber, relevance and customer evolution, and talent acquisition and retention. CFL also tracks emerging risks, such as policies and guidelines around AI, which are reviewed annually. CFL is active in business continuity planning, including succession planning, and conducts at least two incident simulation exercises each year.

ESG Management

KBRA's ratings incorporate all material credit factors including those that relate to Environmental, Social and Governance (ESG) factors. KBRA captures the impact of ESG factors in the same manner as all other credit-relevant factors. KBRA does not deploy ESG scores, but instead analyzes ESG factors through the lens of how company management plans for and manages relevant ESG risks and opportunities. More information on KBRA's approach to ESG can be found here. KBRA believes stakeholder perspectives and emerging disclosure requirements will remain prominent components of (re)insurer approaches to ESG.

KBRA analyzes many sector- and issuer-specific ESG issues but our analysis is often anchored around three core topics: climate change, with particular focus on greenhouse gas emissions; stakeholder preferences; and cybersecurity. Under environmental, as the effects of climate change evolve and become more severe, issuers are increasingly facing an emerging array of challenges and potential opportunities that can influence financial assets, operations, and capital planning. Under social, the effects of stakeholder preferences on ESG issues can impact the demand for an issuer's product and services, the strength of its global reputation and branding, its relationship with employees, consumers, regulators, and lawmakers, and, importantly, its cost of and access to capital. Under governance, as issuers continue to become more reliant on technology, cybersecurity planning and information management are necessary for most issuers, regardless of size and industry.

Environmental Factors

The impact of climate change on (re)insurance entities will differ across short-, medium- and long-term horizons, and may materialize through a range of risk vectors, including physical exposures, energy/carbon transition, and liability profiles. Climate change effects could occur on either side of the balance sheet and while direct financial implications might be immaterial for a company in the short-term, over time, implications for the overall economic system could be material and may drive adjustments in a (re)insurer's operations or strategy. The effectiveness of mitigation efforts related to climate risk will drive materiality across the sector.

As a fraternal membership organization offering individual life and annuities as core lines of business, CFL's liability profile is not directly exposed to environmental factors such as climate risk and natural catastrophe exposure. While the more immediate impacts of climate change are widely considered for property exposures of non-life insurers, there is a growing body of research detailing climate change's potential negative impact on mortality and morbidity, a consideration which is gaining focus in the life sector. CFL considers this risk as part of its elevated mortality stress testing analysis. Further, CFL maintains an investment policy that incorporates ESG considerations though has no formal mandates.

Social Factors

As a fraternal financial services organization, CFL's members are its key stakeholders. Emphasis on charitable support for local nonprofit organizations is core to CFL's mission and an active volunteer network is maintained. CFL supports Catholic education, caregivers, and local outreach programs that serve those in need. Further, CFL strives for a diverse and inclusive work force and conducts annual training on topics such as anti-harassment, anti-fraud, diversity, etc.

Governance Factors

As an organization that increasingly relies on technology and systems to run its business, CFL ensures that its cyber security remains an emphasis organization-wide and is continually enhanced. For the organization, the Chief Information Officer (CIO) oversees cyber security and reviews cyber related topics with the Risk Committee several times each year, including a quarterly review of its cyber security dashboard. An in-depth update is provided to the Board of Directors at least annually. CFL maintains a cyber liability policy and annually conducts simulated penetration events.

External Considerations

Catholic Financial Life is the ultimate parent company of its group. Therefore, there are no external considerations for CFL's rating.

Transfer Risk

CFL is domiciled in the United States (AAA/Stable), only writes business in the United States, and only has USD denominated securities in its asset portfolio. Therefore, there is no currency transfer risk.