



## Fitch Affirms Navy Mutual Aid Association's IFS Rating at 'A+'

Fitch Ratings - Chicago - 09 July 2019: Fitch Ratings has affirmed Navy Mutual Aid Association's (Navy Mutual) Insurer Financial Strength (IFS) rating at 'A+'. The Rating Outlook is Stable.

### Key Rating Drivers

Navy Mutual's IFS rating and Stable Outlook reflect the association's very strong capitalization, adequate profitability and conservative investment profile. The rating also considers the company's small, niche market position and scale along with its interest-sensitive product profile.

Navy Mutual has a solid niche position as a low-cost provider of insurance protection products to United States uniformed service members and their families. However, Navy Mutual's relatively modest size and scale could heighten the impact of unexpected adverse scenarios. Offsetting the company's modest operating scale is management's conservative operating strategy and lower than industry product risk.

Navy Mutual maintains very strong capitalization with an RBC ratio of 538% as of Dec. 31, 2018 and a score of 'Extremely Strong' in Fitch's Prism capital model. The company's total adjusted capital (TAC) remained in line with the prior year at \$323 million as of YE 2018, which was primarily driven by realized and unrealized investment losses offsetting operating profits. The company has no financial leverage.

Navy Mutual's profitability is viewed as adequate and in line with mutual peers but relatively modest compared to the life industry, given their strategy of distributing excess earnings through relatively high crediting rates and policyholder dividends. The company targets a level of profitability that maximizes value to its policyholders while supporting new business growth and providing a cushion against unexpected losses. While prolonged low interest rates continue to exert some pressure on Navy Mutual's earnings, Fitch believes the company effectively manages this rate risk through product design, pricing, and active duration and liquidity management.

Navy Mutual continues to have one of the most conservative investment portfolios in Fitch's rated universe with below-investment-grade bonds making up only 1% of fixed income assets. The company also has below-average exposure to 'BBB' rated bonds, thus having less credit migration risk than the industry. Total risky assets, which include below investment-grade bonds, lower quality real estate, unaffiliated common stock and Schedule BA assets, in relation to TAC remains exceptionally low at 28% as compared with an industry average of 80%. Overall, Fitch views Navy Mutual's investment profile as very strong.

### Rating Sensitivities

Fitch does not anticipate an upgrade in the intermediate term, as Navy Mutual's small scale and narrow market focus limit the upside in its rating.

Key ratings sensitivities that could result in a downgrade include:

--A decline in estimated RBC to below 400% company action level or a Prism capital model score below

'Extremely Strong';

--A spike in investment-related losses or a trend of sustained net operating losses;

--A significant change in war risk exposure and experience;

--An unfavorable change in tax/regulatory status.

#### RATING ACTIONS

| ENTITY/DEBT                 | RATING      |      | PRIOR |
|-----------------------------|-------------|------|-------|
| Navy Mutual Aid Association | Ins Fin Str | A+ ● | A+ ●  |
|                             | Affirmed    |      |       |

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

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## Applicable Criteria

Insurance Rating Criteria (pub. 11 Jan 2019)

## Additional Disclosures

Dodd-Frank Rating Information Disclosure Form

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