

07 NOV 2023

# Fitch Affirms Navy Mutual's IFS Rating at 'A+'; Outlook Stable

Fitch Ratings - Chicago - 07 Nov 2023: Fitch Ratings has affirmed Navy Mutual Aid Association's Insurer Financial Strength (IFS) Rating at 'A+' (Strong). The Rating Outlook is Stable.

## Key Rating Drivers

**Conservative Operating Profile:** Navy Mutual Aid Association is a low-cost provider of life insurance protection products to U.S. uniformed servicemembers and their families. Navy Mutual's product liabilities are comprised primarily of interest-sensitive whole life and term life policies that exhibit more predictable cash flow characteristics and lack the volatility of variable products. New sales consist primarily of term and participating permanent life products, which have a favorable risk profile compared to the company's legacy products.

**Small Scale and Narrow Focus:** Navy Mutual serves a unique market niche with a narrow customer base and has a modest operating scale relative to the broader life insurance market. Rating considerations also include Navy Mutual's limited access to capital markets and the long-term challenge of membership growth due to its niche customer focus.

**Very Strong Capitalization:** Navy Mutual's rating reflects its very strong capitalization on both risk- and non-risk-adjusted measures, demonstrated by an RBC ratio of 464% at YE 2022 and a Prism capital model score of 'Extremely Strong' based on YE 2022 data. The company has no financial leverage and had very low operating leverage of 8x at YE 2022.

**High-Quality Investment Portfolio:** Navy Mutual continues to have one of the most conservative investment portfolios in Fitch's universe, as the company continues to maintain limited exposure to asset classes Fitch views as riskier. The company's risky assets ratio - defined as below-investment-grade bonds, lower quality real estate, unaffiliated common stock, and Schedule BA assets, divided by total adjusted capital (TAC) - was 72% at YE 2022, which compares favorably to the industry.

**Adequate Earnings:** Navy Mutual's profitability lags behind the industry, but is generally in line with mutual companies, and is viewed as adequate given its strategy of distributing excess earnings to members through relatively high crediting rates and policyholder dividends. The company targets a level of profitability that maximizes value to its members while supporting new business opportunities.

**Prudently Managed Reserves:** Fitch believes that Navy Mutual's "war risk" reserve is prudently managed and that mortality experience remains within expectations. The company did not experience significant adverse mortality due to the coronavirus pandemic.

## **RATING SENSITIVITIES**

### **Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade:**

--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.

### **Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade:**

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

--A trend of sustained net operating losses;

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

--An unfavorable change in tax/regulatory status.

## **REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING**

The principal sources of information used in the analysis are described in the Applicable Criteria.

## **ESG Considerations**

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

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## Rating Actions

ENTITY/DEBT	RATING		RECOVERY	PRIOR
Navy Mutual Aid Association	LT IFS	A+ 	Affirmed	A+ 

## RATINGS KEY OUTLOOK WATCH

POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

## Applicable Criteria

[Insurance Rating Criteria \(pub.20 Jul 2023\) \(including rating assumption sensitivity\)](#)

## Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Prism U.S. Life Insurance Capital Model, v1.3.2-2022 [\(1\)](#)

## Additional Disclosures

[Solicitation Status](#)

## Endorsement Status

Navy Mutual Aid Association      EU Endorsed, UK Endorsed

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The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. Sector-specific best- and worst-case scenario credit ratings are listed in more detail at <https://www.fitchratings.com/site/re/10238496>

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