

## **RATING ACTION COMMENTARY**

# **Fitch Affirms Navy Mutual's Ratings; Outlook Stable**

Tue 29 Oct, 2024 - 1:34 PM ET

Fitch Ratings - Chicago - 29 Oct 2024: Fitch Ratings has affirmed Navy Mutual Aid Association's Insurer Financial Strength (IFS) Rating at 'A+' (Strong). The Rating Outlook is Stable.

The rating is based on Fitch's view of Navy Mutual Aid Association's conservative operating profile and less complex product offerings, its very strong level of capitalization, and its generally conservative investment strategy.

## **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 with 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 a risk-based capital (RBC) ratio of 432% at YE 2023 and a Prism capital model score of 'Extremely Strong' based on YE 2023 data. The company has no financial leverage and had low operating leverage of 9x at YE 2023.

**High-Quality Investment Portfolio:** Navy Mutual has a more conservative investment portfolio than the industry. The company maintains less exposure to asset classes Fitch views as riskier. The company's risky assets ratio was 78% at YE 2023, which compares favorably with the industry's 93% risky asset ratio. However, the ratio increased 6pp over YE 2022 as the company seeks to diversify with higher yielding, alternative assets.

**Adequate Earnings:** Navy Mutual's profitability lags behind the industry, but is generally in line with mutual companies. Its profitability 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 mortality experience remains within expectations. The company's product portfolio is exposed to interest rate risk, but not equity market risk, resulting in a less complex product mix relative to peers.

## **RATING SENSITIVITIES**

### **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.

### **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.

## **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>.

## RATING ACTIONS

ENTITY / DEBT ⚡	RATING ⚡		PRIOR ⚡
Navy Mutual Aid Association	LT IFS	A+ Rating Outlook Stable	A+ Rating Outlook Stable
	Affirmed		

[VIEW ADDITIONAL RATING DETAILS](#)

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## **APPLICABLE CRITERIA**

[Insurance Rating Criteria \(pub. 04 Mar 2024\) \(including rating assumption sensitivity\)](#)

## **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, v1.3.4-2023 ([1](#))

## **ADDITIONAL DISCLOSURES**

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Navy Mutual Aid Association

EU Endorsed, UK Endorsed

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