

Navy Mutual Aid Association



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

Fitch Ratings-Chicago-17 July 2018: 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 very strong investment profile. The ratings also consider the company's small 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 Sea Service members and their families. However, Navy Mutual's relatively modest size and scale could heighten the impact of unexpected adverse scenarios.

Navy Mutual maintains very strong capitalization with an RBC ratio of 549% as of Dec. 31, 2017. The company's total adjusted capital (TAC) increased almost 6% to \$325 million during 2017, which was primarily driven by operating earnings and unrealized investment gains. The company has no financial leverage and very low operating leverage at 8x at year-end 2017.

Navy Mutual's profitability is considered adequate and in line with mutual peers but relatively modest compared to the life industry, given their 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 growth and providing a cushion against unexpected losses. While prolonged low interest rates continue to pressure Navy Mutual's earnings, Fitch believes the company effectively manages this rate risk through product design, pricing, actively managed duration and liquidity management.

Navy Mutual has one of the most conservative investment portfolios in Fitch's universe with below-investment-grade bonds making up a modest 2% of fixed income

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