

## **FITCH AFFIRMS NAVY MUTUAL AID ASSOCIATION'S IFS RATING AT 'A+'**

Fitch Ratings-Chicago-02 August 2016: 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, modest profitability, high-quality investment portfolio and unique market niche. The ratings also consider the company's interest-sensitive product profile along with its narrow focus and relatively small scale.

Navy Mutual maintains extremely strong capitalization with an RBC ratio of 518% as of Dec. 31, 2015. The company's total adjusted capital (TAC) increased 5% to \$283 million during 2015, driven primarily by solid earnings. The company has no financial leverage and very low operating leverage at 9.3x at year-end 2015.

Fitch views the company's profitability as modest but in line with mutual peers, given its strategy of distributing excess earnings to its 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.

Navy Mutual reported a net operating gain of \$15 million in 2015 compared with \$8 million in 2014, partially due to more normalized surrender activity as compared with elevated surrenders reported in 2014.

Navy Mutual has one of the most conservative investment portfolios in Fitch's universe with investment-grade bonds making up 99% of fixed income assets. The company also has below-average exposure to 'BBB'-rated bonds, thus subjecting it to less credit 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 38% compared with an industry average of 80%.

Prolonged low interest rates continue to pressure Navy Mutual's earnings and Fitch expects its interest spread to narrow further in 2016. Fitch believes that Navy Mutual effectively manages its interest rate risk through product design, adequate pricing, actively managed duration and liquidity management.

Fitch views Navy Mutual as being at the upper end of its IFS range, due to its narrow focus and the long-term challenge of membership growth. Navy Mutual has a solid niche position as a low-cost provider of insurance protection products to the United States Sea Services and their families.

### **RATING SENSITIVITIES**

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

Key ratings triggers that could result in a downgrade include:

--A decline in estimated RBC to below 400% company action level;

- 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.

Fitch affirms the following rating with a Stable Outlook:

Navy Mutual Aid Association

--IFS at 'A+'.

Contact:

Primary Analyst

Dafina M. Dunmore, CFA

Director

+1-312-368-3136

Fitch Ratings, Inc.

70 W. Madison Street

Chicago, IL 60602

Secondary Analyst

Julie A. Burke, CPA, CFA

Managing Director

+1-312-368-3158

Committee Chairperson

James Auden, CFA

Managing Director

+1-312-368-3146

Media Relations: Hannah James, New York, Tel: + 1 646 582 4947, Email:  
hannah.james@fitchratings.com.

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

Applicable Criteria

Insurance Rating Methodology (pub. 17 May 2016)

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