



## 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+ ● Affirmed	A+ ●

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

### FITCH RATINGS ANALYSTS

Primary Rating Analyst

Douglas Baker

Associate Director

+1 312 368 3207

Fitch Ratings, Inc.

70 West Madison Street

Chicago 60602

Secondary Rating Analyst

Julie Burke

Managing Director

+1 312 368 3158

Committee Chairperson

Jeff Mohrenweiser

Senior Director

+1 312 368 3182

### MEDIA CONTACTS

Alyssa Castelli

New York

+1 212 908 0540

[alyssa.castelli@thefitchgroup.com](mailto:alyssa.castelli@thefitchgroup.com)

### Applicable Criteria

Insurance Rating Criteria (pub. 11 Jan 2019)

### Additional Disclosures

Dodd-Frank Rating Information Disclosure Form

## **DISCLAIMER**

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT [WWW.FITCHRATINGS.COM](http://WWW.FITCHRATINGS.COM). PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT [HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY](https://www.fitchratings.com/site/regulatory). FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

## **COPYRIGHT**

Copyright © 2019 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch

does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

## **SOLICITATION STATUS**

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

## **Endorsement Policy**

Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the EU Regulatory Disclosures page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.

## **Fitch Updates Terms of Use & Privacy Policy**

We have updated our Terms of Use and Privacy Policies which cover all of Fitch Group's websites. [Learn more.](#)