



RATING ACTION COMMENTARY

Fitch Affirms Navy Mutual's Ratings; Outlook Stable

Thu 17 Dec, 2020 - 11:50 AM ET

Fitch Ratings - Chicago - 17 Dec 2020: Fitch Ratings has affirmed the 'A+' Insurer Financial Strength (IFS) rating of Navy Mutual Aid Association (Navy Mutual). The Rating Outlook is Stable.

KEY RATING DRIVERS

The affirmation of Navy Mutual's rating continues to 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, interest-sensitive product profile and the limited impact of the coronavirus pandemic on the company to date.

Navy Mutual has a solid niche position as a low-cost provider of insurance protection products to United States uniformed servicemembers 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.

Fitch views Navy Mutual's capitalization as very strong based on both risk and non-risk-adjusted measures, demonstrated by an RBC ratio of 541% at YE 2019 and a Prism Capital Model Score of 'Extremely Strong' based on YE 2019 data. The company has no financial leverage and had very low operating leverage of 8x at YE 2019.

Navy Mutual's profitability is viewed as adequate and in line with mutual peers but relatively modest compared to the life industry, given its strategy of distributing excess earnings to policyholders. Earnings have been modestly impacted YTD by the ongoing coronavirus pandemic. Increased mortality has been concentrated among older policyholders who typically hold policies with lower face amounts and a larger reserve cushion which has muted the impact. Over the near term, Fitch expects that earnings may continue to be somewhat impacted by increased mortality, however, financial performance is expected to remain in line with rating expectations.

Fitch views Navy Mutual's investment profile as very strong, and to be one of the most conservative portfolios in Fitch's rated universe. Below-investment-grade bonds have increased modestly but only make up 2% of total invested assets. Navy Mutual also has below-average exposure to 'BBB'-rated bonds, which limits the company's potential for future rating migration in the current economic environment. Furthermore, Navy Mutual has very limited exposure to the structured classes that have experienced periods of volatility and drove unrealized losses for the industry earlier in 2020.

Longer-term concerns include exposure to persistently low interest rates which could pressure results if current market rates are maintained. However, Fitch notes that Navy Mutual effectively manages this risk through product design, pricing and active duration and liquidity management.

RATING SENSITIVITIES

The ratings remain sensitive to any material change in Fitch's Rating Case assumptions with respect to the coronavirus pandemic. Periodic updates to Fitch's assumptions are possible given the rapid pace of changes in government actions in response to the pandemic and the pace with which new information is available on the medical aspects of the outbreak.

Factors that could, individually or collectively, lead to a 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 a negative rating action/downgrade:

--A material adverse change in Fitch's Ratings Assumptions with respect to the coronavirus impact;

- 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.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit [<https://www.fitchratings.com/site/re/10111579>]

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

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This 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. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

RATING ACTIONS

ENTITY/DEBT	RATING			PRIOR
Navy Mutual	Ins	A+ Rating	Outlook Stable	A+ Rating
Aid	Fin		Affirmed	Outlook
Association	Str			Stable

[VIEW ADDITIONAL RATING DETAILS](#)

FITCH RATINGS ANALYSTS

Douglas Baker

Associate Director

Primary Rating Analyst

+1 312 368 3207

Fitch Ratings, Inc.

One North Wacker Drive Chicago, IL 60606

Julie Burke, CFA, CPA

Managing Director

Secondary Rating Analyst

+1 312 368 3158

Jim Auden, CFA

Managing Director

Committee Chairperson

+1 312 368 3146

MEDIA CONTACTS

Sandro Scenga

New York

+1 212 908 0278

sandro.scenga@thefitchgroup.com

Additional information is available on www.fitchratings.com

APPLICABLE CRITERIA

[Insurance Rating Criteria \(pub. 25 Aug 2020\) \(including rating assumption sensitivity\)](#)

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, v1.2.1-2019 ([1](#))

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Navy Mutual Aid Association

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