FitchRatings

Insurance
Reinsurance
Tunisia

Société Tunisienne De Réassurance

Key Rating Drivers

Leading National Reinsurer: Société Tunisienne De Réassurance (Tunis Re) is the Tunisian reinsurance market leader, holding an estimated 20% market share in 2020, with very strong domestic market expertise and pricing power. The company writes 54% of its business abroad, and is expanding internationally. Although Fitch Ratings generally views diversification as positive for the credit profile, Fitch believes Tunis Re has limited potential for expansion into good-quality international business.

Improved ERM Framework: We believe Tunis Re's Enterprise Risk Management (ERM) framework showed continuous improvement in the past two years compared to local practices, which is positive for its rating. This was reflected in the first-time review of its reserving practices in 2019 by an independent actuarial firm, as well as by the review of its risk-based internal capital model by a leading international audit firm in 2020.

Continued Resilience to Shocks: We believe Tunis Re's credit fundamentals will remain more robust than Tunisian peers amid the coronavirus pandemic. The company has demonstrated continued resilience to shocks through challenging years for the global reinsurance sector, continuous depreciation of the Tunisian dinar, and the 2011 social uprising in Tunisia. This was largely due to the company's sound management, low risk appetite, good-quality retrocessionaires, and strong ties with its cedents and the Tunisian state.

High Exposure to Domestic Assets: Tunis Re is highly exposed to systemic risk as most of its assets are domestic. However, investment risks are in line with Tunis Re's credit profile, and most of its domestic investments are liquid. Tunis Re is exposed to currency risk, through its business operations which are increasingly skewed towards international markets, high use of international retrocession, and an unhedged currency mismatch between assets and liabilities.

Strong Capital, Underdeveloped Regulation: Tunis Re scored 'Strong' under Fitch's Prism Factor-Based Capital Model (FBM) at end-2019, similarly to 2018, which supports the rating. We do not expect capitalisation to significantly deteriorate as a result of the economic downturn caused by the pandemic. We expect regulatory capital to remain at a comfortable level, although regulatory oversight in Tunisia is fairly under-developed.

Strong Profitability, Volatility to Increase: Fitch believes Tunis Re's earnings are strong for the rating, with a five-year average reported combined ratio slightly below 100% and a five-year average return on equity (ROE) of around 8% in 2015 to 2019. Fitch expects some slight deterioration in 2020, but without impairing the company's overall credit profile. Tunis Re's earnings were adversely affected by foreign-exchange movements in 2019, reflecting increasing vulnerability to currency risk, despite being a benign year for claims.

Strong Retrocession Practices: Fitch believes Tunis Re's retrocession programmes are effective, supporting sound risk-management policies, as the company has developed strong business ties with a panel of highly rated international reinsurers, while maintaining an adequate retention ratio. Exposure to catastrophe risk is manageable, and largely retroceded.

Rating Sensitivities

Business Risk Improvements: Material improvements in the company's business risk profile, which could result from increasing business presence in countries rated 'BB' or above, could lead to an upgrade.

Business Risk Deterioration: Material deterioration in the company's business risk profile, which could result from increasing business presence in high-risk non-rated international markets, could lead to a downgrade.

Ratings

Société Tunisienne de Réassurance

National Insurer Financial Strength	AA(tun)

Outlook

Stable

Sovereign Risk

Tunisia

Local Currency Long-Term Issuer Default Rating	B/Negative

Financial Data

Société Tunisienne de Réassurance

(TNDm)	2019	2018
Total assets	740	700
Total equity	200	200
Return on equity (%)	5.8	8.7
Net combined ratio (%)	100	108

Source: Fitch Ratings; Tunis Re

Applicable Criteria

Insurance Rating Criteria (August 2020)

National Scale Rating Criteria (December 2020)

Related Research

Fitch Upgrades Tunis Re's National IFS Rating to 'AA(tun)'; Outlook Stable (June 2020)

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Latest Developments

- Tunis Re's credit profile is resilient to pandemic-induced pressures compared to domestic peers, and such resilience was illustrated in the company's 9M20 published business and financial indicators.
- Gross and net premiums were 2% lower at 9M20 than at 9M19, which is manageable. Net claims decreased despite some exceptionally large claims due to Tunis Re's effective retrocession, while financial result increased.

Business Profile

Leading Domestic Market Position

Tunis Re is the leading reinsurer in Tunisia, with an estimated 20% market share in 2020. The largest competitors include the "Big 4" reinsurers (Munich Re, Swiss Re, Hannover Re, SCOR). The Tunisian market accounted for 46% of Tunis Re's total business at end-3Q20. As Tunisia's "national reinsurer" with a strong historical presence in its local market, Tunis Re's underwriting and market expertise is very high, as is its pricing power. The company has strong ties to all cedents in Tunisia, of which the largest are both clients and shareholders of Tunis Re.

Fitch believes Tunis Re is strategic to the Tunisian economy. The state ultimately owns around 30% of Tunis Re, either directly or through its stakes in insurers and banks. The state values the company's independence as a "national reinsurer", and although the state was undergoing financial difficulties at the time, still met Tunis Re's 2012 and 2015 capital increases. Tunis Re is generally a major stakeholder in structural economic reforms in Tunisia, and has provided a steady stream of high dividends to its Tunisian shareholders, which testifies to its importance to the local economy.

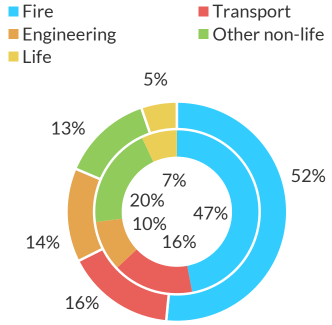
Tunis Re has shown continued resilience to shocks, and we believe the company's credit fundamentals will remain robust to the shocks of the pandemic. It played a strategic role in the 2011 political turmoil in Tunisia, as it re-defined the events as "riots" instead of "revolution", facilitating many claims settlements, in a joint agreement with the state.

At end-3Q20, Tunis Re wrote 54% of its business abroad (35% of which was in the Middle East and North Africa (MENA), 13% was in Africa and 6% in Asia), up from 36% at end-2013. The company plans to continue its international expansion in the next few years, as it faces increasing competition from larger international reinsurers in Tunisia, while maintaining a prudent underwriting policy.

Fitch believes Tunis Re's potential for expansion into good-quality business abroad is limited. This is because it is smaller than other regional and international reinsurers, and also because of the increasing number of markets either favouring their own national reinsurer or requiring minimum credit ratings for foreign reinsurers. A large portion of Tunis Re's new international business has been in countries that are either rated below Tunisia ('B') or unrated, with high geopolitical risks and unsophisticated insurance markets, constraining our assessment of its business risk profile.

Tunis Re's business mix is moderately diversified, with 95% of non-life reinsurance gross premiums, and 5% of life reinsurance, at end-3Q20. The portfolio is dominated by property and casualty reinsurance, which accounts for 66% of total gross premiums. The company plans to further diversify into life reinsurance, which would be positive for the credit profile, particularly in Tunisia where this segment's penetration is very low.

Gross Written Premiums Split
Outer ring: End-3Q20
Inner ring: End-3Q19



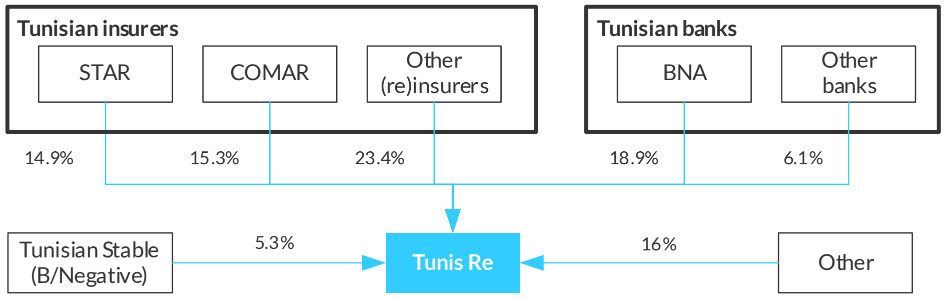
Source: Fitch Ratings, Tunis Re

Ownership

Ownership is neutral to the rating. As an independent reinsurer, Tunis Re's ownership is diverse, with 53.6% of its share capital divided among the largest Tunisian insurance companies, 25.1% divided among Tunisian banks, 5.3% directly held by the state and 16% by other investors. Tunis Re's shares have been publicly traded on the Tunisian Stock Exchange since 2010, and despite having seen two capital increases since, the ownership structure has remained quite stable.

Through its holdings in banks and insurers, as well as its direct stake, the Tunisian state directly and indirectly holds around 30% of Tunis Re's share capital.

Structure Diagram



Source: Fitch Ratings, Tunis Re

Capitalisation, Leverage and Financial Flexibility

Capitalisation Supports Rating

Tunis Re scored 'Strong' under our Prism FBM at end-2019, similarly to 2018. This is a very good score for the rating level. The high score reflects the company's significant capital base and relatively low exposure to catastrophe risk, and an assets portfolio mostly skewed towards monetary and fixed-income investments. Tunis Re's Prism FBM score is, however, constrained by the low overall credit quality of its assets portfolio, as well as additional risk charges relating to its emerging operating environment and currency risk

The company's risk-based internal capital model was reviewed by a leading international audit firm in 2020, which brings the company's risk management practices closer to EU Solvency II standards, in the absence of local risk-based regulatory requirements. The model was developed internally, and covers a wide range of risks such as underwriting risk, reserving, retrocession, default, foreign exchange (FX) risk and interest rate risk.

Fitch considers regulatory oversight on solvency in Tunisia to be fairly underdeveloped, as the insurance market is still regulated under a Solvency I-type framework. As such, Tunis Re's local regulatory Solvency margin, which was at the comfortable level of 234% in 2019, is of minor importance in our assessment of the company's capital adequacy.

Tunis Re has very low financial leverage, as it has not raised any financial debt. Also, the company has not paid dividends in 2020, following state recommendations for Tunisian companies, which provides additional relief for financial flexibility in the pandemic context. The company is one of the five listed insurers in Tunisia, indicating stronger access to the capital markets than most domestic peers, and it also has a successful recent history of capital increases.

Fitch Expectations

- We do not expect capitalisation to significantly deteriorate as a result of the economic downturn caused by the pandemic.
- We expect regulatory capital to remain at a comfortable level.

Financial Highlights

(TNDm)	2019	2018
Total equity	200	200
Prism FBM score	'Strong'	'Strong'
Net written premiums to capital (x)	0.4	0.4

Source: Fitch Ratings; Tunis Re

Financial Performance and Earnings

Strong Profitability, Volatility Could Increase

Fitch believes Tunis Re's earnings are strong for the rating, with a five-year average combined ratio slightly below 100% and a five-year average return on equity (ROE) of around 8% in 2015 to 2019. Tunis Re has been able to maintain a strong and stable track record of earnings despite multiple pressures on its operating environment and high volatility of the Tunisian Dinar. Its domestic pricing power is very strong, as the historic market leader.

Tunis Re's earnings were adversely impacted by foreign-exchange movements in 2019, despite a benign year for claims. 2019 earnings were also impacted by some minor exceptional reserve strengthening following recommendations from its independent actuarial review which occurred in 2019. In 9M20, premiums decreased by -2% year-on-year due to the pandemic. In the same period, gross claims sharply increased, mostly due to one foreign exceptional claim (Beirut explosion) and one domestic exceptional claim. Since these claims were largely covered by retrocession, net claims decreased by -7%.

Tunis Re's net income heavily relies on FX movements as well as investment income, which induce volatility. The dinar is a weak currency, and Tunis Re does not hedge against such FX volatility despite increasing its international business exposure. At end-3Q20 a majority of Tunis Re's net policyholder liabilities were labelled in foreign currencies, which are only partially covered by foreign-currency assets. Fitch believes this mismatch exposes the company to earnings volatility in the event of further fluctuations in the value of the Dinar or of adverse international claims experience.

The company's expansion into low-rated or unrated countries could also increase technical earnings volatility. The company is determined to maintain high retrocession standards, which protects them against FX risk to some extent, but could prove increasingly onerous in a challenging environment (see the *Reinsurance, Risk Management and Catastrophe Risk* section).

Fitch Expectations

- Fitch expects some slight earnings deterioration in 2020 due to the pandemic and minor reserve strengthening. However, this will not impair the company's credit profile, given the nature of its business, its strong risk management practices compared to local peers, and a proven track record of resilience to shocks.
- We believe Tunis Re's growing internationalisation will induce more volatility in technical performance, as barriers of entry in the most attractive markets are high.

Financial Highlights

(%)	2019	2018
Net income (TNDm)	12	17
Net combined ratio (company data)	100	108
ROE (Fitch calculation)	5.8	8.7

Source: Fitch Ratings; Tunis Re

Investment and Liquidity

High Exposure to Domestic Assets

Tunis Re's investment portfolio mostly comprises investments with Tunisian counterparties, indicating high exposure to domestic systemic risk on the assets side. However, Tunis Re's risky assets ratio of 179% at end-2019 is in line with the overall credit profile of the company.

Fitch believes Tunis Re is more exposed to currency risk than its local peers, given its extensive and growing business internationalisation. However, we believe its robust international retrocession programmes mitigate any currency issues resulting from large international claims, to some extent.

Fitch views Tunis Re's liquidity position as strong for the rating, with a liquid assets ratio of 134% at end-2019. Around 82% of Tunis Re's investments are composed of monetary investments, deposits with cedents, and bonds, indicating that liquidity is a central component of the company's asset allocation strategy.

Fitch Expectations

- Fitch does not expect any significant change in Tunis Re's investment allocation in 2020 and 2021, and thus investment risks should remain in line with local practices.

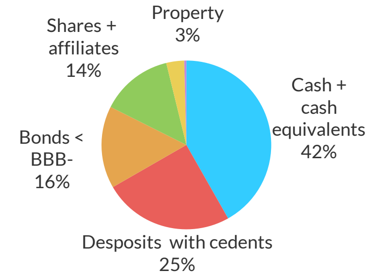
Financial Highlights

(%)	2019	2018
Risky assets/capital	179	173
Equity investments/capital	24	25
Liquid assets/net technical reserves	134	136

Source: Fitch Ratings; Tunis Re

Tunis Re Investment Split

End-2019, at market value



Source: Fitch Ratings; Tunis Re

Reserve Adequacy

Adequate Reserving Practices

Fitch views Tunis Re's loss reserves' growth as 'Neutral' and in line with the company's business profile. Our analysis of the company's loss development triangles shows a positive reserve run-off in the past five years, indicating consistent reserve practices and high expertise on its markets.

As part of its overall ERM framework, Tunis Re's reserving practices were reviewed for the first time in 2019 by an independent actuarial firm. The review was based on data up to end-2018, used international standard actuarial methods, and concluded that claims reserves and incurred but not reported reserving levels were within a "reasonable" range of international best-estimate standards. The review and its conclusions have positively affected our assessment of the company's reserve adequacy.

Fitch Expectations

- We believe Tunis Re will continue to strengthen its reserving practices, benefiting from the external actuarial review process and conclusions. Its reserving practices should remain stronger than those of peers, despite some minor reserve strengthening in 2020 resulting from the actuarial review.

Financial Highlights

(%)	2019	2018
Loss reserves/incurred losses (x)	2.2	1.8
One-year reserve development/prior year loss reserves	-5.9	-7.2
Change in ratio of loss reserves/earned premiums	0.9	0.9

Source: Fitch Ratings; Tunis Re

Reinsurance, Risk Mitigation and Catastrophe Management

Effective Retrocession Programmes

Fitch believes Tunis Re's retrocession programmes are robust and positive for the ratings, and its net exposure to catastrophe risk is prudent. Between 2015 and 2019, on average between 45% and 50% of claims expenses were supported by retrocessionaires, with an adequate average retention ratio of around 55%. The company was affected by two major exceptional claims in 2020, the largest of which was the Beirut explosion, but these were largely retroceded. We believe this shows the effectiveness of its retrocession policy, in particular on international lines.

Tunis Re has strong credit-quality retrocessionaires, with over two-thirds of reinsurance capacity with reinsurers rated in the investment-grade category at end-2020. Hannover Rueck SE (Insurer Financial Strength (IFS): AA-/Stable) and SCOR SE (AA-/Stable) are among the company's most prominent partners.

Fitch believes Tunis Re's net exposure to catastrophe risk is fairly low. This is underpinned by a manageable level of net probable maximum loss as a proportion of capital. The company's exposure to catastrophe risk in Tunisia is low, since insurance coverage of natural disasters is still very low – despite the country's exposure to floods and, to a lesser extent, earthquakes. In international markets, Tunis Re's catastrophe exposure is moderate, and largely retroceded. In particular, the company has a low catastrophe exposure in the Middle East, and none in south-east Asia.

Fitch Expectations

- We believe that effective retrocession and risk management, though costly, will help smooth the company's international results, where we expect gross results to be more volatile due to the FX exposure.
- We expect maintaining good-quality retrocession will remain a major focus for Tunis Re, as the company has developed strong and profitable ties with its international retrocessionaires. We also believe the company will maintain its underwriting discipline with regard to catastrophe risk.

Financial Highlights

(%)	2019	2018
Reinsurance recoverables to capital	97	91
Net premiums written to gross premiums written	49	58

Source: Fitch Ratings; Tunis Re

Appendix A: Peer Analysis

No Domestic Peers, Smaller than Main Regional Peers

Tunis Re is the only specialised Tunisian reinsurer. Its peers are emerging market reinsurers operating in the MENA region or in Africa, the main international markets for Tunis Re. Tunis Re is an independent reinsurer, with no formal support from the state, as opposed to peer state-owned reinsurers such as Societe Centrale de Reassurance (Morocco; AAA(mar)/Stable) and Compagnie Centrale de Réassurance (Algeria; NR), which are national reinsurers with a dominant local footprint and increasing international diversification, similar to Tunis Re.

Tunis Re is smaller than its main competitors in those markets. However, its stable record of profitability compares well with peers.

Peer Comparison

(EURm, As of end-2019)	IFS rating	Gross written premiums	Total equity	Total assets	Combined ratio (%)	Return on equity (%)	Sovereign Rating
Societe Tunisienne De Reassurance	**AA(tun)/Stable**	**51**	**64**	**237**	**100**	**6**	**B/Negative**
Societe Centrale de Reassurance	AAA(mar)/Stable	159	232	1,393	85	11	BB+/Stable
Oman Reinsurance Company SAOC	BB+/Negative	47	53	177	107	4	BB-/Negative
Compagnie Centrale de Réassurance	NR	267	242	771	85	10	NR

Ratings as at 3 February 2021
Source: Fitch Ratings, company financials

Appendix B: Other Ratings Considerations

Below is a summary of additional ratings considerations that are part of Fitch's ratings criteria.

Group IFS Rating Approach

Not applicable.

Notching

For notching purposes, Fitch views the regulatory environment of Tunisia as being 'Limited' in Scope, and classified as "Other" under its notching criteria.

Notching Summary

IFS Ratings
Given the limited scope of regulation assumed by Fitch, a recovery assumption of 'Average' would typically apply to the IFS rating, and standard notching associated with the noted recovery assumption would be used from the IFS "anchor" rating to the implied operating company IDR.
Operating Company Debt
Not applicable
Holding Company IDR
Not applicable
Holding Company Debt
Not applicable
Hybrids
Not applicable

IFS – Insurer Financial Strength. IDR – Issuer Default Rating
Source: Fitch Ratings

Corporate Governance and Management

Corporate governance and management are adequate, and are neutral to the rating.

Transfer and Convertibility Risk (Country Ceiling)

None.

Criteria Variations

None.

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.