Tunisia

B+ rating for Tunis Re

AM Best Co has affirmed the financial strength rating of B+ (good) and the issuer credit rating of "bbb-" of Societe Tunisienne de Reassurance (Tunis Re) (Tunisia). The ratings reflect Tunis Re's very good domestic business profile, which is partially offset by the dependence on a small number of cedants in Tunisia. Other rating factors include Tunis Re's strong risk-adjusted capitalisation and good operating performance. AM Best believes that Tunis Re maintains a very good domestic business profile as a national reinsurer created by the state and the local insurers to consolidate the retention capacity of the Tunisian insurance market and to manage various insurance pools. Although there are no compulsory reinsurance sessions in Tunisia, local insurers cede between 15 per cent and 20 per cent of their premiums to Tunis Re based on a gentlemen's agreement. As a result, Tunis Re has a market share of approximately 25 per cent in the domestic reinsurance market. However, Tunis Re's limited size and capacity continues to hinder its development in the international market.

Furthermore, the firm has significant business exposure to a small number of domestic cedants in a market where international competition is progressively increasing. AM Best believes that Tunis Re's current and prospective risk-adjusted capitalisation is likely toW remain strong in 2008-2009, factoring the planned increase in net retention.

However, it remains significantly dependent on retrocession, although credit risk is mitigated by high quality reinsurers. Tunis Re remains potentially exposed to a natural catastrophe such as an earthquake or drought, which would have an adverse impact on its risk-adjusted capitalisation.

In AM Best's opinion, Tunis Re's earnings are expected to remain good and positively impacted by strong investment returns, translating in a return on premium in the range of 20 per cent to 22 per cent in 2008. AM Best believes the firm's combined ratio is likely to deteriorate to 95 per cent/97 per cent in 2008, mainly due to declining rates in the Tunisian primary market. The company's expense ratio is expected to remain at around 40 per cent due to high administration costs relative to its size. ■