

# The Tunisian Insurance Market after the Revolution



By

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## 1.0 Introduction

The year 2011 was marked by the revolution of 14 January in Tunisia and its repercussions on the entire region. On 23 October 2011, Tunisia had the first democratic election since independence in 1956. The election of a constituent Assembly ushered in a transition phase and during this period, political and security problems dampened economic difficulties in the country. Thus, investment, exports and tourism dropped and even stagnated and, as a result, economic growth slowed down.

The revolution revealed the extent of the structural weaknesses of the country: regional disparities, unemployment of young graduates and governance. But, despite these shortcomings, medium term prospects remain encouraging. Tunisia is expected to attract new capital inflow as it focusses more on transparency and the establishment of new companies. The country can rely on highly qualified local manpower, a dynamic private sector and its strategic geographical position - the meeting point of the European and African continents.

Today, the most important challenge facing Tunisia is to speed up reforms that would boost economic growth. Needless to add that the insurance industry is one of the sectors most concerned with such reforms for several reasons. It is a strategic sector in every modern economy and an area of activity that is influenced by economic, financial and socio-cultural developments. Tunisia

has always taken into account these three elements in all reform initiatives of the insurance industry. The solidity of the sector is increasingly gaining the attention of the national regulator and international institutions especially the European Union and the World Bank, which recently funded two in-depth studies on the market. These studies are expected to provide the necessary insights that would enable the industry fully play its role as a catalyst of socio-economic development.

This paper presents the insurance sector of Tunisia, its performance during the 2011 events and the effect of the revolution on its development. It concludes by highlighting the recommendations of the recent studies and the reform trends in the market.

## 2.0 The Insurance Industry in Tunisia

### 2.1 Organizational framework

Insurance was introduced in Tunisia at the end of the 19th century by the French regime and up to the time of independence, the Tunisian insurance market was dominated by foreign companies. However, at independence, Tunisia made a legislative effort by laying down the regulatory framework to better integrate insurance into the economic and social life. Thus, Société tunisienne d'assurance et de réassurance (STAR) was set up in 1958 with the direct participation of the State as part of the plan to revitalize the sector. Subsequently, several private Tunisian companies were established in the 1960s

and 1970s which took over the portfolios of foreign companies.

On 25 March 1981, the first national professional reinsurer in Tunisia - Tunis Re – saw the light of day. Reinsurance represents an important sector in the insurance industry. It is in fact the backbone of the insurance industry and among other things it enables cedants to cope with peak risks thereby ensuring that the industry plays its role as a vital pillar in the financial sector.

It was not until 1992 that the effort to codify the insurance law materialized, with the promulgation of the insurance code. The code defined the contractual relationship between insurers and the insured, laid down the conditions for approval and prudential control of insurance companies and set out conditions for the practice of professionals who provide ancillary services in the industry.

**2.2 Market size**

At present, the Tunisian insurance market has 23 domestic companies and 4 off-shore companies. Twenty of the domestic companies are limited liability companies and three are mutual companies.

Most of the companies are multi-line while some have specialized in specific classes. There are five life insurance companies, one credit insurance company and one reinsurer. Furthermore, three new companies have specialized in Takaful insurance.

The written premium in 2014 stood at 1,527.4 million Tunisian dinar, representing about 6.9% growth, compared to 2013. Table 1 provides the production levels from 2010 to 2014.

**Table 1: GDP, Premium income and Insurance Penetration**

Currency: million Tunisian dirham

Item	2010	2011	2012	2013	2014
GDP	63,364	64,566	71,332	76.351	82.977
Written premium	1,120.4	1,177.9	1,285.5	1,427.7	1,527.4
Penetration rate	1.77	1.82	1.80	1.85	1.84

**2.3 Market Performance**

In a particularly challenging post-revolution economic environment where the major indicators such as GDP growth rate, inflation rate, unemployment rate and trade balance are on the decline, economic recovery has naturally slowed down in Tunisia. This development has negatively impacted all the sectors of the economy. The insurance industry has not been spared and as a result its contribution to the Tunisian economy remains insignificant. Although the overall insurance market

is slightly in surplus, it is still growing below its real potential. This situation is reflected by the following indicators.

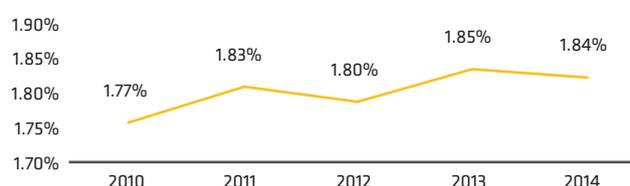
**2.3.1 Insurance Penetration**

A premium/GDP rate of 1.84%, indicated in Table 1, is low, compared to a global average of 6.5%. However, when compared with the other countries of the MENA region, Tunisia is 4th and 2nd in the Maghreb, after Morocco (3%) and ahead of Algeria which has a penetration of 0.8%.

The graph below illustrates the trend of insurance penetration from 2010 to 2014.

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**Table 2: Insurance Penetration**



Indeed, the use of insurance services and products by corporate bodies and individuals is not yet fully entrenched in the Tunisian society. A major reason for this is the low awareness of the role which insurance can play as a risk management instrument. In fact, compulsory insurance still represents a significant share of about 50% of the market.

**2.3.2 Premium per capita**

Premium per capita increased from 98.3 dinars in 2009 to 139.1 dinars in 2014 (US\$73.2), representing an average annual increase of 7.2% over the period (2009-2014). As indicated in Table 2, the premium per capita has continued to increase since 2011. It is worth noting that the premiums include a significant proportion of motor insurance with a premium per capita amounting to TD 63.2 in 2014 compared to TD 58.7 in 2013, TD54.759 in 2012, TD50.431 in 2011 and TD45.5 in 2009.

**Table 3: Population, Premium income and premium per capita**

Currency: Tunisian dinar

Item	2010	2011	2012	2013	2014
Population (Mil)	10.550	10.674	10.733	10.887	10.983
Written premium MillionTD	1 120.4	1 177.9	1 285.4	1 427.7	1 527.4
Premium per capita in TD	106.195	110.353	119.768	129.8	139.1

Despite its growth, insurance density in Tunisia remains very low, compared to the global average which was about US\$662 in 2014. The gap is really wide, compared to the developed market. In 2014, the figures for premium per capita were US\$7,701 in Switzerland, Great Britain (US\$4561), France (US\$3736) and United States (US\$3979). Insurance density in Tunisia is still low as compared to other emerging economies such as Brazil (US\$443), Lebanon (US\$341), Mexico (US\$223) and Turkey (US\$166).

#### 2.4 Mobilization of savings

In contrast to the experience in the developed countries where life assurance and annuity constitute a significant proportion of market premium income (more than 50%), life insurance premium income is still low in Tunisia, representing about 15 % of market production. Life insurance business is dominated by simple covers such as term assurance policies that are tied to housing and capital equipment loans and recently to leasing operations.

### 3.0 The Tunisian insurance market after the revolution

#### 3.1 Impact of the crisis on the industry

The response to the events, resulting from the revolution which Tunisia faced in 2011, clearly demonstrated the commitment, support and understanding of all the stakeholders, especially the officials of the insurance institutions in Tunisia, who had to work together to meet the exigencies of the economic recovery of the country in a post-revolution context.

The damage caused during the revolution affected several insured industrial and business units:

- 71 industrial units
- 144 business centres

**Table 4: Market Profile**

Currency: million Tunisian dinar

	2009	2010	2011	2012	2013	Growth, CAGR		Growth
						2009/2013	2014*	2013/2014
WRITTEN PREMIUM	1 026.23	1 120.36	1 177.91	1 285.47	1 412.67	8.3%	1 527.40	8.1%
CLAIMS PAID	600.25	602.37	712.04	726.06	848.10	9.3%	834.60	-1.6%
MANAGEMENT EXPENSES	181.42	209.25	225.58	265.39	303.50	14.0%		
PROVISIONS	2 045.70	2 282.72	2 633.74	2 900.10	3 076.10	10.8%		
INVESTMENTS	2 243.37	2 494.77	2 771.66	3 414.60	3 118.10	8.6%	3 883.80	24.6%
NET TECHNICAL RESULTS	125.53	101.73	47.40	54.10	87.80	-0.2%		

- 322 banking agencies
- 33 telecommunication agencies
- 46 from other sectors

In order to speed up claim payments, the industry and the relevant authorities had to reach a consensus on the legal status of the events as to whether the losses qualified for payment. In addition, a crisis unit was set up in insurance companies to handle complaints from victims. The insured damages were estimated between 800 million and 900 million Tunisian dinar with guaranteed settlement between 200 million and 250 million Tunisian dinar on the basis of a coverage limit of 25% of the insured value.

The events revealed that some companies had no insurance protection and even where it was available, there was flagrant under-insurance of risks. The Authorities had to take exceptional measures by setting up a fund guaranteed by the State to help those without appropriate insurance covers. From all indications, the industry handled the 2011 crisis very well.

#### 3.2 Performance of the market after the revolution

The insurance market has been able to cope with the difficult situations in the last few years after the crisis and has indeed shown positive signs of redressing the catastrophic situation of the 2011 claims experience.

The table below provides the market profile for 2009-2014. The compound annual growth rate, CAGR, of premium income over the period 2010 - 2014 was 8.1%. The figures indicate that even after the catastrophic events of 2011, premium income recorded an annual growth rate of 9.0% over the period 2012-2014.

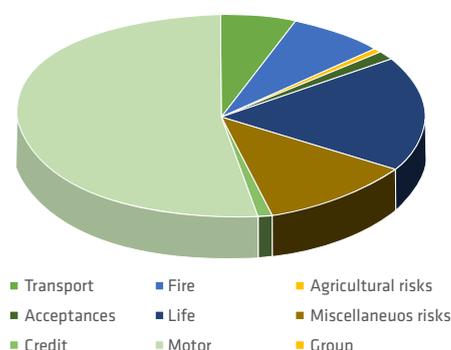
The market is dominated by the property class and particularly motor insurance which generated on average of 45% of the total premium income, as noted in Table 4.

**Table 5: Breakdown of Market Premium income**

Currency: million Tunisian dinar

	2010	2011	2012	2013	2014	Growth
Premium income	1 120.3	1 178.6	1 287.7	1 412.7	1 527.4	8.1%
Motor	517	538	587	639	694	8.6%
Life	162	177	200	221	259	17.1%
Other	441.3	463.3	500.7	552.7	574.4	3.9%

**Distribution of Written Premium per Class: 2013**



The market share of life insurance was less than 9.8 % in 2006 and has been improving ever since, reaching 15 % in 2012 ,15.6% in 2013 and 17% in 2014.

**Claims Experience**

The total claims paid jumped up from about 600 million Tunisian dinar in 2010 to 710 million Tunisian dinar during the revolution, in 2011. Payments increased further by about 1.9 % to 724 million Tunisian dinar a year after the revolution in 2012, reaching a peak of 848 million dinar in 2013 and thereafter slowing down to 835 million Tunisian dinar 2014.

**Table 6: Claims expenditure**

Currency: million Tunisian dinar

	2010	2011	2012	2013	2014	Growth
Claims	599.7	709.8	723.9	848.1	834.6	-1.6%
Motor	337	360	376	422	454	7.5%
Life	32	43	51	64	64	0%
Others	230.7	306.8	296.9	362.1	316.6	-12.6%

**Investments**

As an institutional investor, the cumulated investments of the sector in 2014, as indicated in table 6, amounted to 3883.8

million Tunisian dinar as against 3414.6 million Tunisian dinar in 2013, representing 13.7% increase. Fixed income securities represented 53% while investment in equities ranked second with a 23% share.

**Table 7: Investments**

Currency: million Tunisian dinar

	2010	2011	2012	2013	2014	Growth
Investment	2 590.8	2 887.6	3 118.1	3 414.6	3 883.8	13.7%
Non-Life		2 321	2 474	2 635	3 008.8	14.2%
Life		566.6	644.1	779	875	12.3%

The total investment, as compared to technical provisions, provided the market with a coverage of about 111% in 2013, compared to 107.5% in 2012 and 109.2% in 2011. Furthermore, the market recorded a profit after tax of 82.5 million dinar in 2013, compared to 53.7 million dinar in 2012 and 70.1 million dinar in 2011.

**3.3 Orientations of the current reform**

Five years after the 2011 revolution and a transition period that appears to be on the right track, indicators from the insurance sector in Tunisia confirm the existence of a well-established platform that can provide additional impetus to the sector in the mobilization of savings and funding of the economy.

Needless to indicate that hope and willpower are driving our efforts as we develop and further consolidate this sector with the initiation and implementation of a reform package as part of public/private sector programme - a contract that spreads over a five-year period (2016-2020) and has the following objectives:

- Strengthen the structure, organisation and financial position of the companies and the sector at large
- Enhance diversification and improve the performance of the sector
- Contribute to the economic and social development of Tunisia, especially by improving the coverage of risks and mobilization of domestic savings.

These reforms are expected to streamline the sector, consolidate the basics through far-reaching initiatives that are aimed at improving transparency, financial strength of players, and enhancing the prospects of the industry. Some difficult lines like motor insurance will be reformed. Indeed neither the market players nor the policy holders are satisfied with the performance and contribution of this portfolio to the development of the insurance sector. It has therefore, been necessary to stabilise the class by improving on the quality of

its services and products and thereby end the irregularities that have seriously undermined the insurance industry. It is true that motor is just a class of business, but it significantly influences the image of the sector as a whole.

The reforms also aim at growing underdeveloped classes such as life insurance which is a very promising class with great prospects, and whose contribution to the development of other sectors of the economy is very important, considering its role as a source of long term investible funds.

The reforms would promote and reinforce positive control measures in order to provide « reasonable insurance » that meets the special requirements of the industry. Needless to add that the sector requires special attention that would ensure total compliance with standards and rules of prudential management and a financial regime that guarantee the proper use of resources.

#### **4.0 Conclusion**

There are clearly favourable conditions for the insurance market in Tunisia to move on to the next level of growth. Indeed, the achievements recorded so far- a reformed legal framework, simplified and streamlined taxation, a special accounting regime- constitute an enabling environment that can promote and reinforce new reform actions.

However, the revival of the sector would first involve its upgrade by modernizing management methods, strengthening financial and technical know-how, improving on services and products and adapting them to the needs of consumers. The effort to revitalize the insurance sector is an initiative expected by the stakeholders who would readily support it. In this connection, the Tunisian Federation of insurance companies would play a significant role, particularly with regard to the sensitization and manpower development, necessary for the progress of the market.