



RATING ACTION COMMENTARY

Fitch Affirms Tunis Re at National IFS 'AA(tun)'; Outlook Stable

Wed 09 Jun, 2021 - 11:04 AM ET

Fitch Ratings - Paris - 09 Jun 2021: Fitch Ratings has affirmed Societe Tunisienne de Reassurance's (Tunis Re) National Insurer Financial Strength (National IFS) Rating at 'AA(tun)'. The Rating Outlook is Stable.

KEY RATING DRIVERS

The National IFS Rating reflects the leading position of Tunis Re in the Tunisian reinsurance market, as well as its strategic role within the economy of Tunisia, underpinned by its strong ties with its cedants, retrocessionaires and the Tunisian State (B/Negative). Our assessment of the company's business profile is constrained by increasing diversification into high-risk geographies, with limited potential for expansion into sound-quality international business.

Tunis Re's credit fundamentals were robust in 2020 despite the coronavirus pandemic and two major exceptional claims, including the August 2020 Beirut explosion. We expect the company's fundamentals will remain robust in 2021. The company has demonstrated continued resilience to shocks through challenging years for global reinsurance, depreciation of the Tunisian dinar, and the 2011 social uprising in Tunisia. This was due largely to the company's sound management, low risk appetite, sound-quality retrocessionaires, and strong ties with its cedents and the Tunisian state.

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

Tunis Re scored 'Adequate' under Fitch's Prism Factor-Based Capital Model (FBM) at end-2020, compared with 'Strong' at end-2019, albeit still supporting the rating. This slight deterioration was due to multiple factors, including a 2021 planned dividend payment, after Covid-19 restrictions resulted in no dividend in the previous year. Other factors which affected Prism are a wider currency mismatch between assets and liabilities versus 2019, mostly due to some reserve strengthening amid 2020 exceptional claims, and a higher retained catastrophe risk. We expect Prism to remain 'Adequate' in 2021, and regulatory capital to remain at a comfortable level, although regulatory oversight in Tunisia is fairly under-developed.

Fitch believes Tunis Re's earnings are strong for the rating, with a five-year average reported combined ratio of around 100% and an average return on equity (ROE) of 7% in 2016-2020. Tunis Re's earnings were robust in 2020 despite some exceptional non-Covid-19 related claims, and pressures from the pandemic. We expect earnings to remain robust in 2021.

Fitch believes Tunis Re's retrocession programmes are effective, supporting sound risk-management policies, as the company has developed strong business ties with highly rated international reinsurers, while maintaining an adequate retention ratio. Exposure to catastrophe risk is manageable for the company and largely retroceded, despite some increased net exposure in 2021 due to challenging retrocession renewals amid exceptional 2020 claims.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

-- Material improvements in the company's business risk profile, which could result from increasing business presence in countries rated 'BB' or above

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

-- Material deterioration in the company's business risk profile, which could result from increasing business presence in high-risk unrated international markets, could lead to a downgrade

-- Evidence of significant deterioration in the company's retrocession policy and programme

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.

RATING ACTIONS

ENTITY/DEBT	RATING	PRIOR
Societe Tunisienne de Reassurance	Natl Ins Fin Str	AA(tun) Rating Outlook Stable Affirmed
		AA(tun) Rating Outlook Stable

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APPLICABLE CRITERIA

[National Scale Rating Criteria \(pub. 22 Dec 2020\)](#)

[Insurance Rating Criteria \(pub. 15 Apr 2021\) \(including rating assumption sensitivity\)](#)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Prism Factor-Based Capital Model, v1.7.2 (1)

ADDITIONAL DISCLOSURES

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ENDORSEMENT STATUS

Societe Tunisienne de Reassurance

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