

RATING ACTION COMMENTARY

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

Wed 01 Jun, 2022 - 08:40 ET

Fitch Ratings - Paris - 01 Jun 2022: 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

Leading Domestic Market Position: Tunis Re is Tunisia's leading reinsurer and has a growing international presence (53% of gross written premium). Its strategic role within the economy of Tunisia is underpinned by its strong ties with its cedants, retrocessionaires and the Tunisian state (CCC). Our assessment of the company's business profile is constrained by a moderately diversified business mix, and a limited potential for expansion into sound-quality international business.

High Domestic Assets Risk: The company is highly exposed to systemic risk as most of its assets are domestic. Fitch-calculated risky asset ratio (RAR) increased to 223% at end-2021 (2020: 193%), driven by the downgrade of Tunisia's Issuer Default Rating (IDR) in March 2022. Most of Tunis Re's balance sheet is exposed to currency risk through its business operations that are increasingly skewed towards international markets, active use of international retrocession, and an unhedged currency mismatch between assets and liabilities

Adequate Capital: Tunis Re's capitalisation, as measured by our Prism Factor-Based Capital Model (FBM), was 'Adequate' at end-2021, which supports the rating. Prism capital headroom reduced in 2021 after the downgrade of Tunisia's IDR to 'CCC' was only partially offset by robust capital generation and reduced currency mismatch between liabilities and assets. Tunis Re's internal risk-based capital model, which is consistent with Solvency II standards and was reviewed by an independent international audit firm, shows a comfortable solvency margin at end-2021.

Strong Profitability: Fitch believes Tunis Re's earnings are strong for the rating, supported by sound and improving technical profitability. Its combined ratio (CR) reached 92.5% in 2021 (2020: 96.9%) and averaged 96.3% over the last three years. Return on equity (ROE), as calculated by Fitch, improved to 7.7% in 2021 (2020: 6.9%) and is supportive of the rating. We expect Tunis Re's solid underwriting expertise, sound risk management and effective retrocession to be supportive of earnings.

Effective Retrocession: Fitch views Tunis Re's retrocession practices as effective and positive for the rating. Tunis Re has developed strong business ties with highly rated international reinsurers. Retention rate has increased at 2021/2022 renewals, mostly for non-proportional reinsurance, while exposure to catastrophe risk remained largely retroceded.

RATING SENSITIVITIES

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

-- Material improvements in Tunis Re's business risk profile, which could result from an increasing share of good-quality business in better rated countries than Tunisia

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 markets

-- 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 ↕
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Societe Tunisienne de Reassurance	Natl Ins Fin Str AA(tun) ● Affirmed	AA(tun) ●

RATINGS KEY

STABLE

OUTLOOK



VIEW ADDITIONAL RATING DETAILS

Additional information is available on www.fitchratings.com

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APPLICABLE CRITERIA

- [Insurance Rating Criteria \(pub. 26 Nov 2021\) \(including rating assumption sensitivity\)](#)

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

- [Solicitation Status](#)
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ENDORSEMENT STATUS

Societe Tunisienne de Reassurance -

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