Tunis Re
...your risk is our business

Tunis Re Newsletter

N°44

First Quarter 2023

CSR Action: Installation of a computer classroom at the ISCAE MANOUBA

EDITORIAL

In view of the climate change, the accelerated frequency of natural disasters and their increased intensity, a fast-moving transformation of the economy is required.

The insurance sector does not deviate from this rule, and must anticipate the development of new coverage appropriate to this new climatic context, which puts insurers and reinsurers under pressure, raising the question of the insurability of this risk in the long term.

Indeed, 2022 was marked by natural events of a rare intensity affecting Europe and the rest of the world, such as Hurricane Ian in the United States, Storm Eunice in North-Western Europe, the Fukushima earthquake in Japan, drought in Europe, the United States and China, and floods in Pakistan, India, China and Australia.

According to the latest estimations, global economic losses due to natural disasters have reached $360 billion, of which $140 billion is covered by the insurers. This report confirms that the year 2022 should be the fifth most costly year for insurers.

Considering the increased number of earthquakes recorded in recent years, and in particular the two powerful earthquakes that hit Turkey and Syria on 6 February 2023 killing more than 51,000 people, this phenomenon could probably be favoured by the repercussions of climate change. According to geodesists and geophysicists: The load of ice decreases, it changes the stress present in the earth's crust"

Over the last decade, it is observed that, in addition to the risk of earthquakes, the countries of the Anatolian plate and the Middle East are particularly exposed to climate change (floods, droughts, storms, etc.).

It is important to emphasise that the players in the insurance sector could be a key catalyst for more sustainable and responsible development, by the very nature of their activities and their ability to adapt them to economic, societal and climatic changes.

In this context, it becomes unavoidable to include the risk of climate change in the CSR approach. This is a real challenge for insurers as it is a potential factor for amplifying traditional risks, likely to affect the assets and liabilities of their balance sheet, through stopping providing coverage to and investing in highly polluting activities.

Lamia Ben Mahmoud

The Insurance sector face to inflation: Challenges & solutions

By **Marwa Ben Hassen**

After several decades of lull and price stability, the global economy is witnessing a return of high inflation reaching record levels in almost all countries. According to the IMF, the global inflation rate has, dramatically, blown up from 4.7% in 2021 to 8.8% in 2022, **roughly the double of its value in one year only**.
The main factors behind this new situation are:

Global debt which reached around 320% of GDP in 2019 hitting a record since the 1950s (US $ 259 trillion). Indeed, the World Bank and the IMF have stressed that this situation would increase the sensitivity of the economy to any potential economic and financial shock;.

This adage was confirmed after the brutal eruption of Covid-19, which led to the strongest recession ever known since the World War II, and the outbreak of the conflict between Russia and Ukraine;

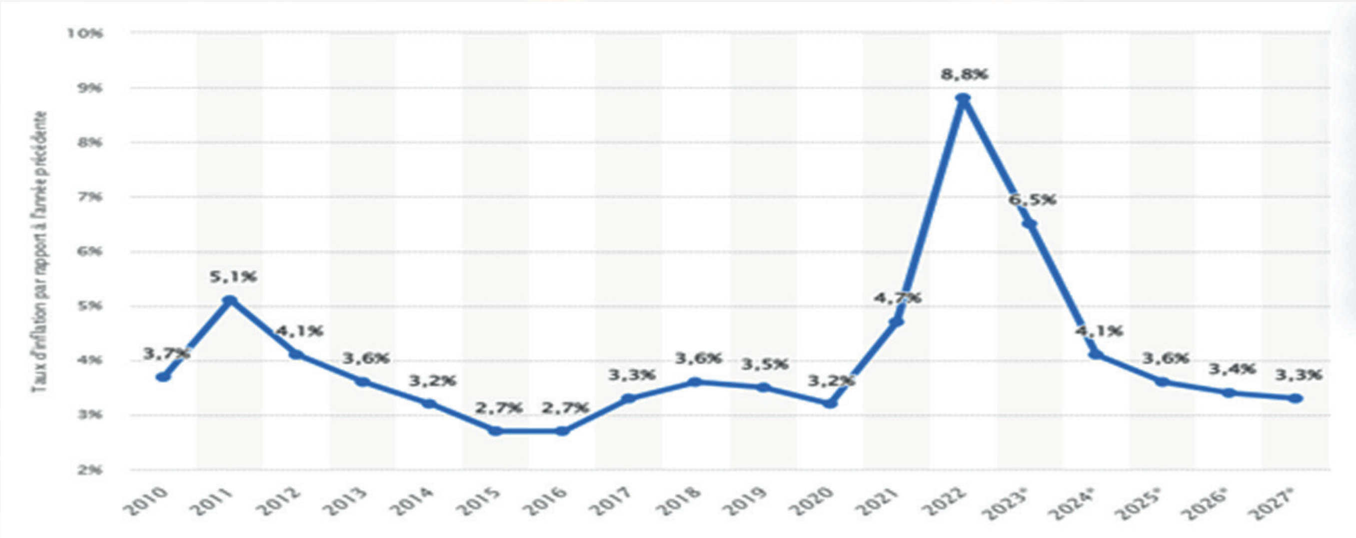
The resurgence of increasingly devastating **natural disasters** (the recent example of the Turkish earthquake).

Production is the only answer to inflation

These factors have resulted in a supply chain disruption and have caused strong pressures on commodity and energy prices.

At first glance, the IMF projects inflation to return, by 2025, to its level before Covid 19 pandemic. This scenario is argued by the reduction of bottlenecks related to sanitary restrictions.

On the other side, successive rises in interest rates operated by the Central Banks to curb inflation have squeezed the demand in several countries and could increase the specter of an economic slowdown this year.



Graph 1: Inflation rate evolution (statista, 2023)

In view of this upheaval, insurance professionals have put into perspectives the impact of inflation on their business, for which the subject has captured the market attention and dominates, henceforth, all the discussions.

As a matter of fact, and according to the latest risk barometer ascertained at the end of 2022 by France Assureurs, economic pressure-related risks are ranked 3rd (third) after cyber-attacks and climate change risks, hence gaining two places comparatively to 2022.

Insurance professionals have put into perspectives the impact of inflation on their business.

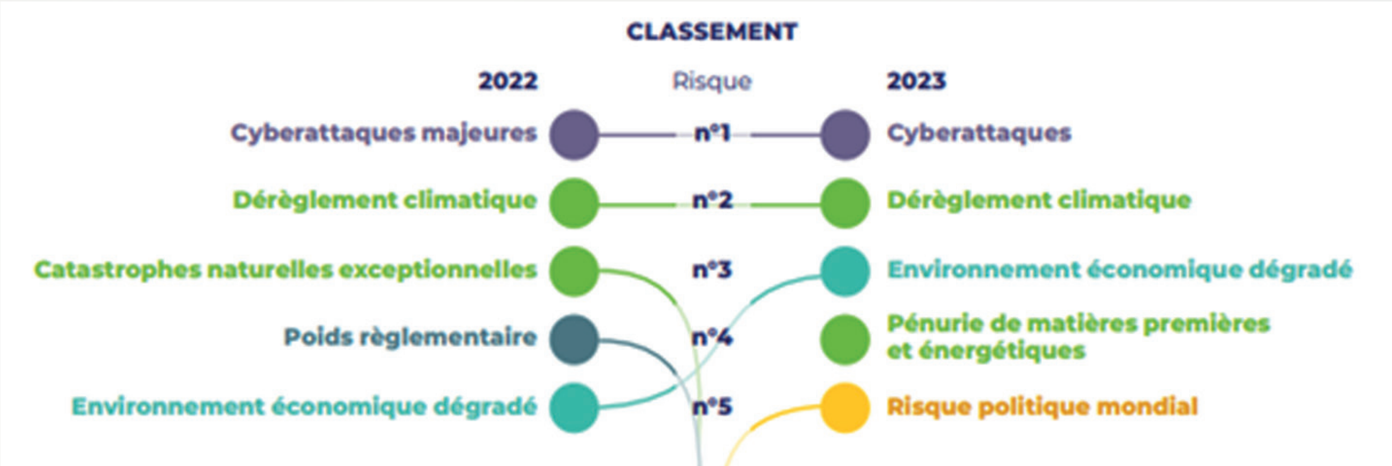


Figure 2 : Risques liés l'activité d'assurance (Cartographie perspective 2023, France Assureurs)

The January 2023 renewal campaign, was one of the most difficult seasons.

Furthermore, and with regards to the January 2023 renewal campaign, professionals are unanimous to reveal that this was one of the most difficult seasons.

Inflationary trends and larges losses, caused by the aforementioned factors, have created an increase in the cost of non-life reinsurance cover which was, in some cases, provided under new structures with the revision of retention and deductibles.

Besides, property treaties renewal was bound after the usual deadlines especially in the US market. Reinsurers have also been deemed to require a minimum premium rate as a precautionary measure.

Despite this hard market situation, some ceding companies have, on the other hand, obtained flexible terms in a « bouquet approach » thanks to their historical relationship with reinsurers.

How could inflation affect the insurance sector and what measures could professionals undertake to duly manage the crisis?

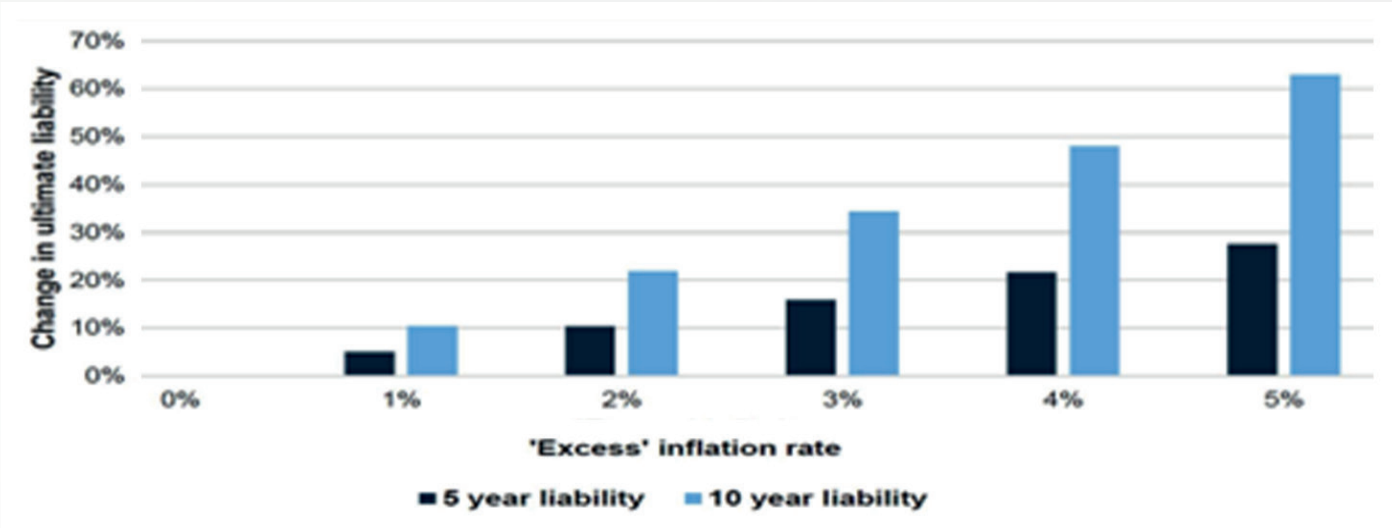
One feature of the insurance business is its inverted production cycle which means that the cost of coverage is only known after the occurrence of an event, at which point the insurer is deemed to apply price adjustments if market conditions allow (hard of soft market).

As a result, insurers resort to modelling in order to anticipate future claims on the basis of experience and potential inflation forecasts. However, in a context where inflationary trends are unpredictable, this approach becomes meaningless since the past would be no longer a relevant source.

Future claims estimation is, hence, the first of the challenges thrown down by inflation resulting in a quasi-mechanical rise in claims costs. The weight of this burden would be heavier on the balance sheet of the reinsurer of non-proportional covers in the absence of certain safeguards such as indexation and stability clauses.

The impact is also greater for long tail classes in comparison to short tail ones since the inflation fallout accumulates over the years (as shown in the following graph). In other words, the higher the evolution rate of inflation and the longer the period spent before the payoff, the heavier is the cost of the claim.

Future claims estimation is, hence, the first of the challenges thrown down by inflation .



Graph 3: Accumulation of inflation impact (Source : Gallagher Re)

Motor liability cover is the best example to take for long tail classes where a physical damage claim could remain outstanding for several accounting years awaiting the consolidation of the injured third-party state of health or the legal disputes procedures comes to an end.

Conversely, in short term business such as fire and miscellaneous risks, settlement is literally quick. The inflation impact, although, limited, may result in higher experts' fees or unexpected indemnities allowed by social trends and views towards litigation (**social inflation**).

In addition to that, incurred losses can get worse if damaged materials should be ordered from the international market and that the local currency gets depreciated (**imported inflation**).

As for Life insurance, the fallout of inflation on claims is less significant as the recovered amount is usually based on a lump sum known in advance regardless of price trends. It is not excluded, however, that the benefit is served as an annuity linked to incomes which would have gone up over the years at an unexpected rate.

In sum, an underestimation of the impact of inflation on claims would create a distortion in the estimation of outstanding claims provision. In this case, pricing would be inadequate and would not reflect the growth of inflation pressure-underlying exposures.

As mentioned above, price adjustment depends, amongst others, on the economic situation and may be submitted to the political authority's good will which is entrusted, along with the Central Banks, to preserve consumer purchasing power.

In this context, it is necessary to study the price elasticity of demand so as to assess market reaction towards a change in price. This means that demand tends to fall as long as prices go up. The main risks that emerge from this situation are as follows:

Under-insurance situation resulting from the difference between real and insured values.

A non insurance situation when clients choose to limit the scope of cover of policies to the mandatory risks, or, ultimately, to remain uncovered.

A brake in terms of commercial development for the sector especially in developing countries where penetration rate is still low.

The inflation fallout accumulates over the years.

The impact of interest rate rise on the insurance sector

In order to control inflation, Central Banks have made several adjustments in interest rates. While the decision is necessary, it is likely, though, to be costly for the economy as a whole and for the insurance industry in particular.

The main risks emerging out from this decision are as follows:

Market Risk :

«The risk of loss or of adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments».

Re(insurers)'s assets are mainly composed of bonds which are said to be a safe investment associated with low credit risk. Market values and volatility of bonds are highly influenced, among other parameters, by the type of the asset (flat or variable rate).

Significant changes in interest rates caused the insolvency of several life insurers in the US (Babbel and Santomero, 1999);

Liquidity Risk or the potential failure to successfully and rapidly sell assets, in case the need to honor commitments arises, due to a depreciation in their values in the market;

Call Risk mostly visible in life insurance when the investor chooses to redeem a callable asset prior to maturity and opt for a new reinvestment at a better rate. Massive buybacks are very likely to reduce the value of life insurers assets and could even cause bankruptcy.

The recent case of SVB in the US is a perfect illustration of the extent to which assets buybacks are a serious threat to any financial institution.

How would it be possible, for (re)insurers, to manage the crisis and mitigate inflation impact?

To manage the crisis, professionnals ought to undertake some measures :

To **map risks** and lines of business according to their sensitivity degree and the inflation rate evolution.

To raise awareness among customers regarding the necessity to update insured sums and avoid the risks of an under-insurance situation.

To build partnerships with organizations such as healthcare or IT solutions providers to develop new, efficient products and gain in terms of profit margins;

To study the possibility to index insurance premium to inflation.

With regards to settlements, to simplify and accelerate the process for cases without anomalies and encouraging amicable arrangements for dormant claims.

As for investments, to **diversify the types of investments**, opt for real estate placements with an increasing value over time, reduce the average maturity of bonds and focus on inflation-linked bonds or equities.

In non-proportional reinsurance, to make sure the **indexation and stability clauses** are inserted so as to spread inflation impact between insurers and reinsurers by recalculating priority and cover. It would be necessary as well to use a commutation clause to liquid dormant claims.

With relation to provisions, it is appropriate to use models that take into account inflation. Some technical provisions such as Profit Sharing and surplus provisions are used to absorb inflationary shocks on assets performance.

Conclusion

This article was an opportunity to discuss the impact of inflation on the insurance sector after going through its main sources. The challenges are certainly important especially that the outlook is not clear yet, the Covid pandemic situation in China is not yet under control, the conflict in Ukraine is still inflaming and the situation of global debts is still warring.

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The crisis has an impact on the whole insurance value chain. Insurers should be attentive to changes and, most importantly, be proactive taking the necessary actions in time. IMF projections foresee a decline in inflation but victory is still early to be declared.
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We work in close collaboration with all local market operators to raise public awareness about inflation stakes. The Tunisian Federation of Insurance Companies (FTUSA) has, on its side, launched advertising spots through mass media to remind policyholders of the need to adjust insured sums. It is true that this objective is not easy to achieve given the economic situation, but it is necessary to intensify awareness-raising actions and develop appropriate insurance solutions.

ACTUALITES Nationales

Tunis Re Flash Infos

The Ordinary General Assembly of Tunis Re on 04 May 2023

We announce to our esteemed shareholders that our Board of Directors, during its meeting of Thursday March 30, 2023, has examined the activity of the company during the financial year 2022 and has approved the financial statements relating to this year.

The financial statements show a 20% increase in written premiums with 195.3 million dinars against 163.2 million dinars in 2021 and a record net profit of 19.8 million dinars against 16.7 million dinars in 2021, representing an increase of 19%. The Board decided to propose the distribution of a dividend of 0.400 dinars per share, compared to 0.350 dinars last year, and decided to hold the company's shareholders' Annual General Meeting on 04 May 2023.

Fitch Ratings confirms Tunis Re's 'AA (tun)' rating with stable outlook.

The rating agency Fitch Ratings has affirmed, as of February 3rd, 2023, the financial strength rating of Tunis Re at AA (tun) with stable outlook. The national financial strength rating of Tunis Re is attributed to its strong solvency.

According to the agency, the recent upgrade of Tunisia's long-term foreign currency issuer default rating (IDR) from «CCC» to «CCC+» does not change its opinion on Tunis Re's credit risk compared to its local market peers.

Tunis Re has provided a mosaic workshop for the benefit of the auditory deficient students of «ASDA».

Tunis Re is proud to have set up in favor of the Association for the Support of the Auditory Disabled «ASDA» -located in Borj Cedria, Tunis- a workshop, fully equipped, and dedicated to «mosaic» art. The learning and training of students of the association «ASDA» was provided voluntarily by the artist Ms. Najiba Maamer.

Compensation for flood victims in Nabeul

According to Law N°2019-24, which extended the scope of intervention of the Insured's Guarantee Fund "FGA", to the compensation of damages resulting from the floods occurred in 2018, Tunis Re has been charged to manage the section dedicated to compensate the victims for material damages in the governorate of Nabeul.

Hereafter, the situation as at April 21, 2022:24 avril 2023:

Files Number	
Deposits	876
Treated	217
Accepted	173
Approved funds in TND	6 798 340,624
Aamounts paid in TND	6 792 692,698

Appointment of a new president of the FTUSA

Mr. Hassène FEKI was elected new president of the Tunisian Federation of Insurance Companies - FTUSA, succeeding Mr. Habib Ben Hassine, according to a press release issued by FTUSA on April 17, 2023.

The fight against fraud

La Fédération tunisienne des sociétés d'assurances a organisé du 6 au 10 mars une formation au profit des cadres de sécurité des différents fils du ministère de l'intérieur sur l'assurance automobile et les moyens de lutter contre la fraude dans le domaine des accidents de la circulation .

The FTUSA calls for the updating of insured values of assets in 2023 :

According to the press release of March 14, 2023, the FTUSA recommends to update the value of the assets covered by insurers.

Assurances Maghrebia celebrates its 50th anniversary

Established in 1973, Maghrebia Insurance is celebrating its 50th anniversary this year. A great ceremony designed to commemorate the 50th anniversary was organized on Friday, March 10, 2023.

ACTUALITES Internationales

Natural Disasters: 2022, world record year of losses for insurers.

Natural disasters have caused 275 billion USD of global economic losses in 2022, including 125 billion USD covered by insurance.

Natural disasters such as Hurricane Ian in Florida, hailstorms in France, floods in Australia and South Africa, winter storms in Europe & the United States and droughts in Europe, China & the Americas, made the year 2022 the second consecutive year exceeding the 100 billion USD of insured losses due to natural catastrophes.

Morocco: Increase in premium income in 2022

The Insurance and Social Security Supervisory Authority «ACAPS» has declared an increase in premiums written by insurance and reinsurance companies that reached nearly 54.89 billion dirhams (MMDH) during the year 2022, an evolution of 9.3% compared to 2021.

Mauritania will host the next general meetings of FANAF:

Mauritania will host in February 2024 the general meetings of the Federation of African National Insurance Companies (FANAF).

The Mauritanian candidate was accepted during the last meetings of the pan-African organization held from 20 to 24 February 2023 in Kinshasa, Democratic Republic of Congo (DRC).

Africa Specialty Risks (ASR) has been approved as a coverholder at Lloyd's

Africa Specialty Risks (ASR), the pan-African-focused reinsurance group has been approved as a Lloyd's coverholder, the world's leading market for specialty insurance and reinsurance solutions.

Saudi Arabia: Insurance market adopts IFRS 17 and IFRS 9

The Saudi Arabian Central Bank (SAMA) has announced the formalization of its adoption of IFRS 17 - Insurance Contracts (IFRS 17) and IFRS 9 - Financial Instruments (IFRS 9) by the Saudi insurance industry.

Establishment of the Association of Arab Actuaries

The General Union of Arab Insurers announced the creation of the Association of Arab Actuaries (AAA) on March 17, during the meeting organized in Lebanon by the Association of Lebanese Insurance Companies. The objective of this initiative is to provide more employment and training opportunities for qualified actuaries, whose numbers are still limited in the MENA region.

AWRIS reveals new visual identity

AWRIS
الصندوق العربي لتأمين أخطار الحرب
Arab War Risks Insurance Syndicate

AWRIS has announced the adoption of a new visual identity. This new corporate identity reflects the union's continued commitment to stay aligned with the modern and evolving marketplace and to continually reinforce the quality of services offered to member companies.

Appointments

- **M. Mohammed Amal KAGHAT** has been appointed on February 20th 2023 as General Manager of Attijari Assurance Tunisia.

M. Charalampos Mylona has been appointed, on February 20th 2023, as General Manager of ADNIC

- **M. El Hadji Amar Kébé** has been appointed, on January 26th 2023, General Manager of AXA Senegal.

Mergers and Acquisitionss

Dar Al Takaful becomes Watania International Holding

After approval of the shareholders in the general meeting held on March 28, 2023, Dar Al Takaful PJSC announced the change of the company name to become«Watania International Holding - PJSC».

Merger between Oman Qatar Insurance and Vision Insurance concluded.

Oman Qatar Insurance, a subsidiary of Qatar Insurance Company (QIC), and Omani company Vision Insurance completed their merger on February 16, 2023. The transaction has been approved by the Omani government.

AMAN approves withdrawal and liquidation of insurance portfolios and transformation into an investment company

The General Assembly of Dubai Islamic Insurance and Reinsurance Company (AMAN) approved, during its meeting in February 2023, the withdrawal and liquidation of the insurance portfolios in order to transform the company’s activity into an investment corporation after the approval of the official authorities concerned.

Events

49th Conference of the African Insurance Organization: May 2023

The 49th Conference and General Meeting of the African Insurance Organization (AIO) will be held from 27 to 31 May 2023, at El-Aurassi Hotel in Algiers, Algeria under the topic: « The contribution of insurance to food security challenges in Africa.

Activity Figures of The Tunisian Insurance Market As at 31.12.2022

At December 31st, 2022, The Insurance sector in Tunisia has been characterized by :

(M TND)

	2020	2021	Evol 21/20	31/12/2022	Evol 22/21
Chiffre d'affaires	**2 572**	**2 833**	**10%**	**3 147**	**11%**
Motor	1 112	1 202	8%	1 282	7%
Life	624	722	16%	879	22%
Others	836	909	9%	986	8%
indemnisation	**1 349**	**1 636**	**21%**	**1 639**	**0%**
Motor	636	714	12%	761	7%
Life	204	342	68%	295	-14%
Others	509	579	14%	583	1%
Nombre de contrats	**2 712 722**	**3 042 096**	**12%**	**3 363 409**	**11%**
Motor	1 577 378	1 813 067	15%	1 923 522	6%
Life	693 918	728 571	5%	877 188	20%
Others	441 417	500 458	13%	562 699	12%
Nombre de sinistre	**1 209 783**	**1 293 760**	**7%**	**1 405 796**	**9%**
Motor	216 966	268 779	24%	292 170	9%
Others	992 817	1 024 981	3%	1 113 626	9%
Investments	6 843	7 550	10%	9 070	20%

Activity Figures of Tunis Re
1st Quarter 2023

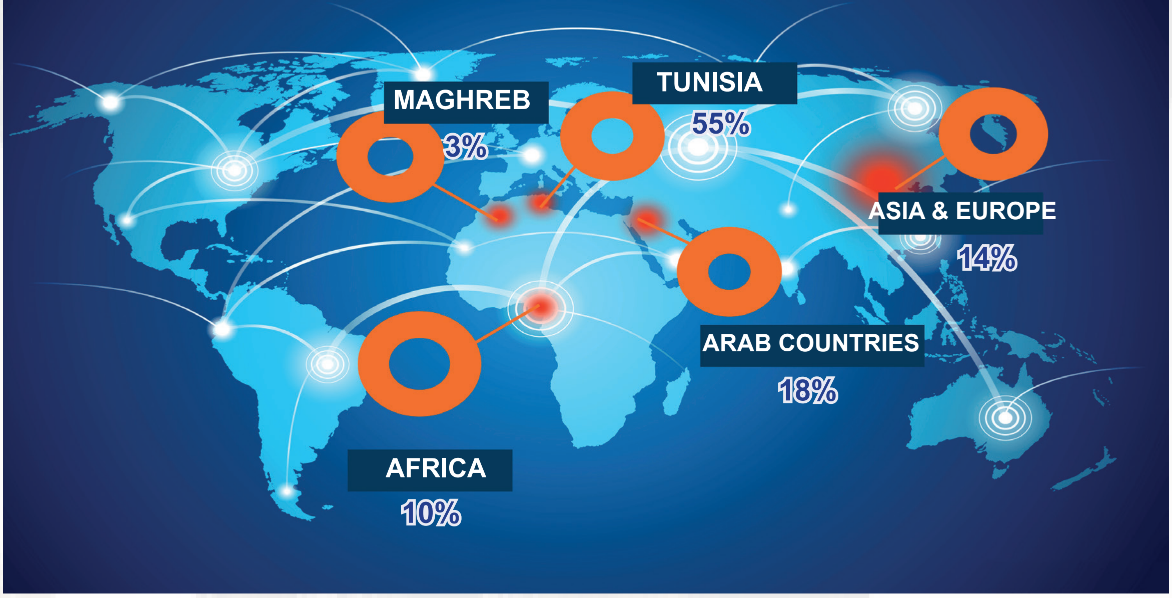
Turnover **61.978 MDT** **+14%**

Retained Premium **49.205 MDT**

Retention Rate **79%**

Tunisia	Overseas
55%	45%
+14%	+13%

Turnover By Market



17.874 MDT
Net Claims Charge

38% Loss Ratio

Investments

368.856 MDT

Investments Income

6.429 MDT

Stock market : Figures as at 31.03.2022 of the listed Insurance Companies (In M TND)

Company	Premiums			Gross Claims Charge			Investments		
	March-23	March-22	Var%	March-23	March-22	Var%	March-23	March-22	Var%
STAR	127.349	126.969	0%	64.049	72.165	-11%	21.059	20.027	5%
ASTREE	78.631	91.853	-14%	18.191	15.772	15%	12.384	9.589	29%
BH ASSRANCE	50.568	47.378	7%	23.689	22.478	5%	5.761	4.284	34%
MAGHREBIA	90.618	83.308	9%	33.634	32.393	4%	4.386	4.875	-10%
MAGHREBIA VIE	30.114	28.05	7%	10.24	7.178	43%	7.941	7.725	3%
AMI	46.053	39.282	17%	18.676	23.316	-20%	9.211	6.421	43%
TUNIS RE	61.978	54.553	14%	36.423	18.508	97%	6.429	5.75	12%

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