

RATING ACTION COMMENTARY

Fitch Affirms Tunis Re at IFS 'AA(tun)'/Stable

Thu 06 Jul, 2023 - 11:14 ET

Fitch Ratings - Paris - 06 Jul 2023: 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.

Tunis Re's National IFS is driven by its strong creditworthiness. The recent downgrade of Tunisia's Long-Term Foreign-Currency Issuer Default Rating (IDR) to 'CCC-' from 'CCC+' does not alter our view of Tunis Re's credit risk relative to local market peers'.

KEY RATING DRIVERS

Leading Domestic Market Position: Tunis Re is Tunisia's leading reinsurer with a growing international presence (53% of gross written premiums in 2022). Its strategic economic role in Tunisia is underpinned by its strong ties with its cedents, retrocessionaires and the Tunisian state (CCC-). Fitch's assessment of the company's business profile is constrained by a moderately diversified business mix and a limited potential for expansion into overseas business in higher-rated countries than Tunisia.

High Domestic Asset Risk: The company is highly exposed to systemic risk as most of its assets are domestic. The Fitch-calculated risky-asset ratio remained broadly stable at 224% at end-2022 (end-2021: 223%). Most of Tunis Re's balance sheet is exposed to currency risk through an unhedged currency mismatch between assets and liabilities from its growing business internationalisation. Currency risk is mitigated by the use of international retrocession programmes.

Adequate Capital: Tunis Re's Prism Factor-Based Capital Model (FBM) remained 'Adequate' at end-2022, driven by a low overall quality of asset risk and a large capital base. Tunis Re's internal risk-based capital model, which is consistent with Solvency II standards and was reviewed by an independent international auditor, had a comfortable solvency margin at end-2022.

Strong Profitability: Fitch believes Tunis Re's earnings are strong for the rating, supported by sound and improving technical profitability. It reported a combined ratio of 91.7% in 2022 (2021: 92.5% in 2021, three-year average: 93.7%), despite the adverse impact of inflation and exchange rate effects due to the rise of the US dollar. This led to an improvement in the Fitch-calculated return on equity (ROE) to 8.6% in 2022 from 7.7% in 2021.

We expect Tunis Re's solid underwriting expertise, sound risk management and effective retrocession to mitigate potential earnings volatility resulting from foreign-exchange (FX) movements and financial market fluctuations.

Effective Retrocession: Tunis Re's retrocession practices are effective and positive for the rating. It has developed strong business ties with highly rated international reinsurers. In 2022 retention rate continued to increase as the company shifted its activity towards less volatile treaty business. Its whole portfolio is subject to an excess of loss policy, while exposure to catastrophe risk remained largely retroceded. However, the company remains vulnerable to higher retrocession cost.

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 outside Tunisia

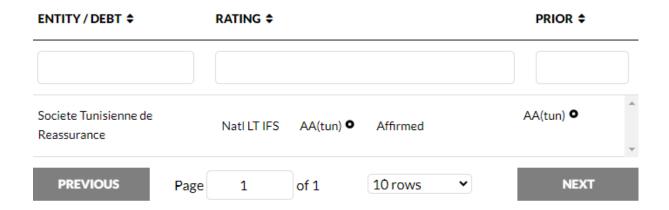
Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade:

- -Material deterioration in the company's business risk profile, which could result from increasing business presence in higher-risk markets
- -Evidence of significant deterioration in the company's retrocession policy and programme
- -Sharp deterioration in earnings resulting from reserve deficiencies, investment losses and/or weak underwriting discipline, over a prolonged period of time

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



VIEW ADDITIONAL RATING DETAILS

Additional information is available on www.fitchratings.com

PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

APPLICABLE CRITERIA

• Insurance Rating Criteria (pub. 15 Jul 2022) (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, v1.8.0 (1)

ADDITIONAL DISCLOSURES

- Solicitation Status
- Endorsement Policy

ENDORSEMENT STATUS

Societe Tunisienne de Reassurance -

DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: https://www.fitchratings.com/understandingcreditratings. In addition, the following

READ MORE

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

ENDORSEMENT POLICY

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's Regulatory Affairs page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.

LIEN WEB

https://www.fitchratings.com/research/insurance/fitch-affirms-tunis-re-at-ifs-aa-tun-stable-06-07-2023