

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

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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

ENTITY / DEBT ↕	RATING ↕	PRIOR ↕
Societe Tunisienne de Reassurance	Natl LT IFS AA(tun) ● Affirmed	AA(tun) ●

PREVIOUS

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VIEW ADDITIONAL RATING DETAILS

Additional information is available on www.fitchratings.com

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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](#)
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ENDORSEMENT STATUS

Societe Tunisienne de Reassurance -

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