



Fitch Rates Tunis Re National IFS 'AA-(tun)'; Outlook Stable

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Fitch Ratings-London-18 February 2019: Fitch Ratings has assigned Societe Tunisienne de Reassurance (Tunis Re) a National Insurer Financial Strength (IFS) Rating of 'AA-(tun)' (Very Strong). The Outlook is Stable.

KEY RATING DRIVERS

The national scale IFS Rating reflects Tunis Re's very strong business profile and profitability, and moderate asset risk relative to the domestic market.

The rating of Tunis Re reflects its leading position in the Tunisian reinsurance market and increasing international diversification, as well as its strategic role within the Tunisian economy, underpinned by its strong ties with its cedents, retrocessionaires and the Tunisian state. 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.

The company is highly exposed to systemic risk as most of its assets are domestic. Fitch, however, believes that asset allocation is in line with Tunis Re's credit profile, and most of the company's domestic investments are liquid. Tunis Re is exposed to currency risk, with an unhedged currency mismatch between assets and liabilities.

Tunis Re's earnings are stable and strong for the rating, with a five-year weighted average reported combined ratio at 97% and a five-year average return on equity (ROE) at 7.6%, for 2013 to 2017. However, its earnings are vulnerable to adverse financial market conditions, increased international business risk appetite, or higher retrocession costs, among other factors.

Tunis Re's scored 'Strong' under Fitch's PRISM factor-based capital model at end-2017, indicating a strong capital base and low risk appetite. However, Fitch views regulatory oversight on solvency in Tunisia as somewhat underdeveloped, as the insurance market is currently regulated under a Solvency I-type framework, which constrains the agency's assessment of Tunis Re's capital quality and strength. Tunis Re is currently developing an in-house full risk-based internal model, which Fitch views positively.

Fitch believes Tunis Re's retrocession programmes are effective, supporting sound risk management policies, as the company has developed strong business ties with a panel of highly-rated international reinsurers, while maintaining a strong retention ratio. Exposure to catastrophe risk is manageable, and largely retroceded.

Tunis Re plans to have an external review of its reserving practices in the next few years, which would positively impact our assessment of the company's reserve adequacy, which currently constrains the rating.

RATING SENSITIVITIES

The rating could be upgraded if Tunis Re's reserving practices are externally reviewed and if the company's risk-based internal model is finalised and validated by a well-established firm, along with an improved regulatory framework at state level.

The rating could be downgraded in case of higher international net loss experience for a prolonged period, which could occur from expanded international business in underdeveloped markets, or if Tunis Re increases its net catastrophe exposure. The rating could also be downgraded if Tunis Re loses some of its main retrocession partners on its programmes.

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Applicable Criteria

[Insurance Rating Criteria \(pub. 11 Jan 2019\)](#)

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