Tunis Re
News Letter
N°37
Second Quarter 2021

EDITORIAL

Despite a year 2020, marked by a deep pandemic crisis, the emergence of new risks and an increased uncertainty having forced the whole world to adjust their growth forecasts and action plans several times, the global insurance market was able to withstand these rapid changes, recording a total premium of 6,287 billion USD, against 6,284 billion USD a year earlier.

Per zone, slight increases oscillating between 1.3% and 2% were recorded in the markets of North America, Asia Pacific and the Middle East, however premium decreases were recorded for regions of Europe, Africa and Latin America respectively by 3%, 10% and 16% over one year.

The Tunisian insurance market continued also its growth recording a 6% increase in the total market premiums against a 10% drop in number of claims declared during the year 2020, following the confinement period and despite the occurrence of a major fire loss, namely Tunisia OUATE & SIPP, which was considered to be the most costly loss in the history of property insurance in Tunisia.

The reinsurance sector meanwhile was placed under negative outlook by the Rating Agencies, following the increase in claims and the possible worsening of the loss ratio, impacting therefore the profitability of reinsurers The combined ratio is situated between 103% and 108% for the year 2020.

The two reinsurance giants Swiss Re and Munich Re were not spared from the consequences of this crisis and recorded notable deteriorations in their net results.

The pandemic has However, sustained positive changes for insurance, triggering significant risk awareness and increased demand for health and protection insurance which saw their global premiums rise by 1.9% and 1.7% respectively in 2020. For the year 2021, global life insurance premiums are expected to pick up sharply by 3.8% and by 4.0% in 2022.

Indeed, the rapid deployment of vaccines and the large-scale fiscal stimulus, including unprecedented direct transfers to households and businesses, fuel a stronger economic rebound in 2021 with a forecast for global real Gross Domestic Product growth estimated at 5.8% after a 3.7% contraction in 2020. Insurance demand will benefit from the growth momentum and will grow above the trend of 3.3% in 2021 and 3.9% in 2022, registering a much faster rebound than after the 2008 global financial crisis.

Times of crisis are often catalysts because they force thinking. To cope and adapt, it is essential to mobilize around universal values.

For the insurance sector, it is undoubtedly also a question of returning to the fundamentals of the relationship of partners and placing more than ever human skills, expertise and know-how at the heart of our action plans.

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Rating Agencies

New Approach Adapted to the Economic and Sanitary Context

> " In all human affairs, you have to risk in order to be successful. Great successes depend on the fair assessement of the chances of winning and losing. "
>
> Gustave Le Bon

By Imen Ksouma

The role played by Credit Rating agencies in the financial markets has increased since the 20th century. The systemic importance of ratings and the confidence placed in them by individual & institutional investors, and by financial regulators has put the activities and performance of CRAs under the spotlight of public interest.

There are around 150 financial rating agencies in the world, few of them have a global vocation. The big three Moody's, Standard & Poor's and Fitch Rating hold a 90% of market share.

Rating Agencies and their Rating Systems

Rating agencies are independent organizations whose main activity is to evaluate the capacity of private or public companies, States or communities to meet their financial commitments according to scales predefined by market players and/or regulations.

Different rating scales are existing which depend on the agencies, the entities rated and the period (long or short term).

The rating systems differ from one agency to another but a consensus can be established: ratings scale is from A to D, with A being the best rating, which are composed also of mid-level ranks.

An entity rated AAA will have a bankruptcy risk of 0.05%.

The basic criteria on which scoring systems are based are mainly:

- For governments: the economic situation, the general political situation, the monetary and budgetary policy, ...
- For companies: accounting and management criteria, risk analysis, economic outlook, etc.

A rating committee, made up of analysts, collects available data, public or not, on the company and its market. Once the rating is established, the agency continues to monitor the rated entity and may revise the rating periodically.

Despite their well-tested working methods, the agencies have not been spared from criticism.

Indeed, facing a mixed world economy, the CRAs have fallen into evaluation lapses that have led observers to point out the opacity surrounding the models that these agencies use and have consequently led them to revise their work methodologies

Rating Agencies and Financial Crises

The delayed reaction of the Rating Agencies during the last decade facing the numerous socio-economic crises experienced by the world market, has put their independence and their scoring methodology into question (the Enron affair, the bankruptcy of the Lehman Brothers bank, the crisis of surcharges, the uncertainties over European debts and Greece's deficit).

They are even accused of having participated in the outbreak of the financial crisis of 2007-2009.

The agencies did not anticipate any of the major crises, nor did they see the Asian crisis of 1997 coming.

According to the World Bank, the Big Three have no pre-defined templates. «The rating agencies are at the center of a complex system of relationships that includes the market, the politics, and the financings, among others. As a result, ratings and their trend are increasingly difficult to manage, including for the CRAs. There is no magic integral calculator but always, at the end, an expert decision that can impact the rating. In all circumstances, a rating represents a compromise between the historical behavior of the rated entity, the current environment, and the anticipation of the entity's resilience to adverse situations».

Corporate ratings are always based on an analysis of purely financial aspects and the company's business profile.

Nevertheless, an analysis of the sovereign ratings assigned by the three leaders in the sector allows us to identify the decisive and unavoidable criteria among the lenient lists of standards and ratios provided by the agencies themselves. Five recurring standards are noted in the sovereign: the history of defaults over 20-25 years, inflation, GDP/capita, the ratio of public debt to budgetary revenues, and political & institutional governance.

On the other hand, companies' ratings are based on different criteria from those of sovereign analysis. Corporate ratings are always based on an analysis of purely financial aspects and the company's business profile. The latter reflects in particular an entity's ability to withstand difficult situations and therefore takes into account the impact of sovereign risk on the company, its sector risk, its market positioning and its management strategy. The financial dimension stricto sensu is based on the analysis of key financial ratios (operating income over revenues, net income over revenues and return on equity, EBITDA…), their evolution over time and comparing to a peer group.

This analysis also aims to qualify the company's ability to maintain or improve its levels of earnings and profitability and thus requires a good understanding of both the investments to be made in the medium to long term and its financial flexibility in the short, medium and long term.

The New Basel II and Basel III Standards and Solvency II have expanded the Rating Agencies power

With the entry into force of the Basel II accords in 2004, a new factor was recognized and institutionalized.

The Basel II agreement was adopted with the aim of better understanding the credit risks of banks, in particular through a revision of capital requirements. This revision imposes on banks the «McDonough ratio» which takes into consideration the risk of default by borrowers. Through these agreements, the evaluation of credit risk can now be carried out according to two methods.

The first is an internal bank evaluation method, while the second is based on credit ratings from external organizations.

New international texts relating to rating agencies have been adopted. However, the revision of the Code of Conduct IOSCO as well as the replacement of the Basel II accords by the Basel III accords seem to adopt contradictory directions.

Solvency II directives and its implementation measures have influenced the institutional landscape of finance.

For an actuary, a rating is not a measure of risk, but rather the opinion of an agency.

For economists, Basel III introduces new methodologies for calculating the regulatory capital needed to cover credit risk.

Similarly, the Solvency II directives and its implementation measures have influenced the institutional landscape of finance.

With the entry into force of Solvency II, the role of rating agencies has been strengthened. Indeed, Credit Rating is at the heart of Solvency II. This is the consequence of an evasion of responsibility on the part of the public authorities, which have delegated to the agencies the power to regulate investments. Thus, all investment regulation prevails over Solvency II. For an actuary, a rating is not a measure of risk, but rather the opinion of an agency.

COVID 19 Pandemic Impact on the Country Risk Rating

The coronavirus pandemic is plunging the world into its worst recession. The pandemic crisis has put the public finances of many countries under severe strain and major world economies have had their credit ratings downgraded or under threat.

S&P has warned of a possible wave of revisions linked to the Covid-19 crisis. Almost a quarter of countries rated by S&P see their rating with a negative outlook, which can lead to the downgrade of the country's sovereign rating. Among them are Australia, rated AAA-, Italy and Mexico, rated BBB, or Spain, rated A.

In light of the crisis conditions, Fitch Ratings also downgraded 33 sovereign ratings in 2020 and the negative outlook peaked at 44 in the middle of the same year. Both records are considered historical and the agency expects the negative outlooks conversion rate for the downgrade of sovereigns' rate to be below the historical average of 63%.

However, the major rating agencies have not, until now, massively downgraded the ratings of the major States.

This immobility is explained first of all by the rating methodologies: the rating agencies are used to rating through the economic cycle. This approach, advocated by Moody's nearly 20 years ago and adopted by its competitors, has the advantage of smoothing ratings over time and thus reducing their cyclicality. A second factor is the agencies' fear that their downgrades will trigger a systemic crisis threatening the stability of the world economy. The third is their confidence in developed countries and their responsiveness. Drawing lessons from the last financial crises, governments quickly embarked on a very accommodating monetary policy.

Notation des Compagnies d'assurance et de Réassurance

Les compagnies d'assurance sont soumises à des notations qui tentent de décrire leur stabilité financière. Les Agences de Rating les plus courantes dans le secteur sont A.M. Best, Standard & Poor's, Moody's et Fitch Rating.

Insurance and Reinsurance Companies' Credit Rating

Insurance companies are subject to ratings that attempt to describe their financial stability. The most common rating agencies in the industry are A.M. Best, Standard & Poor's, Moody's and Fitch Rating.

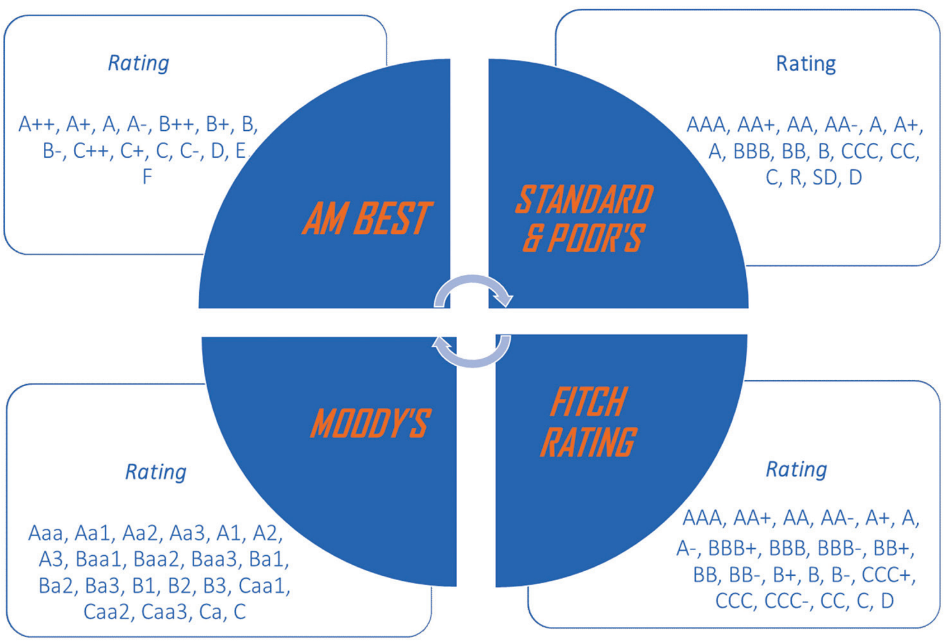
Common Rating Criteria :

To achieve the different ratings, the big four agencies have different criteria. We can count the main areas of interest taken into consideration by the rating agencies, as a tool for analysis and evaluation of the financial strength of a company, as follows:

The company's capitalization level	The Liquidity degree of the Company's Assets	The indebtedness level of the company's Assets / Debt Ratio
The company's ability to pay for incurred claims	Investments and risks taken by the insurer/reinsurer	Type of Governance and Risk Management Protocols
Business Strategy	Income sources' diversification	Underwriting Policy

Given the drop in the written premiums level associated with a high demand for paid claims, the CRAs have reconsidered their outlook for the insurance and reinsurance market since the year 2020.

Each rating agency has its own methodology and uses its own rating scale. They take all of the information and break it down into Scoring.



Covid-19 Impact on Reinsurers' Ratings

Given the drop in the written premiums level associated with a high demand for paid claims, the CRAs have reconsidered their outlook for the insurance and reinsurance market since the year 2020.

Indeed, the worsening of the loss ratio explains the agencies predictions, which remain negative.

Standard & Poor's has placed the reinsurance sector under a negative outlook since May 2020. A decision taken following the possible loss ratio deterioration.

At the end of 2020, the agency maintained the same negative outlook for the industry, despite the foreseeable improvement in 2021 renewal conditions as well as the tightening announced on the market.

For the end of 2021, the Credit rating agencies expect that reinsurers close the year 2021 with a combined ratio between 103% and 108%.

If the losses resulting from natural disasters exceed 60 to 70 billion USD at the end of the year, the main part of the mega reinsurers might not be able to honor their commitments.

Indeed, the pandemic has already eroded part of the market leaders reserves. Before the Covid 19 crisis, reinsurers had already disbursed, as a result of CAT NAT, a large part of their reserves.

Similarly, Fitch Ratings and at the end of 2020 had also maintained its negative outlook for the sector.

As regards Moody's it was in September 2020 that the agency changed the growth outlook for the whole reinsurance market from stable to negative.

Credit Ratings assigned to reinsurance companies have been affected and their only hope today is to preserve their already pre-established rating.

Following the same trend, the Credit Ratings assigned to reinsurance companies have been affected and their only hope today is to preserve their already pre-established rating.

While AM BEST maintained the ratings with the same outlook of the Top Ten in the global reinsurance market, Standard & Poor's downgraded the outlook of two reinsurers.

For the top 50, S&P has downgraded the outlook for eight reinsurers, seven of which have moved from stable to negative. Only one reinsurer has its rating downgraded, Aspen Insurance.

On the other hand, Mapfre Re is the only reinsurer that has had its rating upgraded.

As for AM Best, the general trend was to maintain the ratings of the mega reinsurers. Only five companies have been downgraded.

	Rating 2019		Rating 2020	
Compagny	S & P	AM Best	S & P	AM Best
Swiss Re	AA-/Negative	A+/Stable	AA-/Stable	A+/Stable
Munich Re	AA-/Stable	A+/Stable	AA-/Stable	A+/Stable
Hannover Re	AA-/Stable	A+/Stable	AA-/Stable	A+/Stable
Berkshire Hathaway	AA+/Stable	A++/Stable	AA+/Stable	A++/Stable
SCOR	AA-/Stable	A+/Stable	AA-/Stable	A+/Stable
China Re	A/Stable	A/Stable	A/Stable	A/Stable
Reinsurance Group America	AA-/Stable	A+/Stable	AA-/Stable	A+/Stable
Lloyd's	A+/Stable	A/Stable	A+/Stable	A/Stable
Everest Re	A+/Stable	A+/Stable	A+/Stable	A+/Stable
Partner Re	A+/Negative	A+/Stable	A+/Stable	A+/Stable

Tunisia and the Tunisian Insurance Market Rating

Already weak, the Tunisian economy has been hardly affected by the pandemic crises. The GDP contracted by 8.8% in 2021 recording its worst economic slowdown since independence.

On February 23, 2021, the rating agency Moody's announced the downgrade of Tunisia's rating from B2 to B3 while maintaining a negative outlook.

A situation confirmed by Standard & Poor's which has put the dot, in May 2021, on the scenario of a payment default of the Tunisian debt.

The economic shock arising from the Covid-19 pandemic and the current political instability in the country, which worsens its budgetary outlook, have prompted the agency to downgrade the ratings of three Tunisian banks: ATB, BH and BTE, from B- previously to CCC+.

Tunis Re, being conscious of the importance of financial rating in the international market, has been already dealing with CRAs for many years now.

Tunis Re Financial Strength Credit Rating

In Tunisia, the culture of rating request is not very common among the Tunisian insurance companies.

Tunis Re, being conscious of the importance of financial rating in the international market, has been already dealing with CRAs for many years now.

As of February 4, 2021, the international agency Fitch Rating has revised upwards the rating of Tunis Re from AA- (tun) to AA (tun) with a stable outlook. This rating confirms the financial strength of Tunis Re and confirms its technical performance and its risk control.

A decision that was confirmed in June 2021. In spite of the downgrade of the country's sovereign rating, the agency maintained the financial strength rating AA (tun) and the outlook remains stable.

This confirmation will further strengthen Tunis Re's position as the national reinsurer leader in its domestic market, which has also reinforced its position in the regional market.

According to the agency's analysis, for the period 2016-2020, the company's earnings remained strong. The 5-year average Combined Ratio is slightly lower than 100% and the return on equity (ROE) is 7%.

The IFS national rating reflects Tunis Re's leading position in the Tunisian market, as well as its strategic role at the heart of the Tunisian economy, supported by its strong links with insurance & reinsurance companies and the Tunisian State.

Tunis Re has achieved an «adequate» score under Fitch's Prism factor-based capital model (FBM) at the end of 2020. And they trust that Prism remains «Adequate» in 2021, while regulatory requirements capital remains at a comfortable level, although regulatory oversight in Tunisia is relatively underdeveloped.

Fitch pointed out that Tunis Re's retrocession programs are efficient, supporting a solid risk management policy, as the company has developed strong business relationships with well-rated international reinsurers, while maintaining an adequate Retention Ratio.

Emergence of new type of Credit Rating Agencies that evaluate the practices of companies with regard to environmental, social and governance standards.

Similarly, in July 2020, AM Best affirmed Tunis Re's B+ «good» financial strength and «bbb-» long-term credit ratings.

The outlook for both ratings is stable. A rating that reflects the financial strength of the company's balance sheet, its financial flexibility and its appropriate management of business risk.

The agency indicates that the strength of the balance sheet is supported by the risk-adjusted capitalization which peaked in 2019. For the agency, Tunis Re's operational performance is deemed adequate

CONCLUSION

With the diversification and disintermediation of financing, many companies need to show their credit risk credentials, and certainly the financial rating plays a fundamental role in the assessment of the risk associated with debt instruments in the economy.

Nevertheless, the development of sustainable finance, combined with the growth of regulatory requirement for extra-financial reporting and transparency, has contributed over the last decade to a sharp increase in demand for non-financial data and has favored the emergence of new type of Credit Rating Agencies that evaluate the practices of companies with regard to environmental, social and governance standards, thus an instrument at the disposal of Socially-Responsible Investors. ■

NEWS

National

Tunis Re Flash Infos

- «Fitch Ratings» has affirmed on June 9, 2021 the rating of Tunis Re at «AA (tun)» with stable outlook. This rating reflects Tunis Re's strong balance sheet as well as the performance of its Risk Management system.

New organization of the General Insurance Committee «CGA»

The government has published Decree N°2021-506 of June 25, 2021 regulating the organizational chart of the General Insurance Committee and cancelling all the provisions of the decree N°2012-411 issued on May 17, 2012, relating to the approval of the CGA's structure.

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 of July 28, 2021;

Nombre de Dossiers :	
- Déposés	872
- Traités	204
- Acceptés	159
Montants approuvés en DT	6 034 502,187
Montants réglés en DT	5 907 185,384

Global Cybersecurity Index «GCI 2020» : The Tunisia moves up 31 places

Tunisia has moved up 31 places to 45th position out of 192 countries according to the Global Cybersecurity Index «GCI 2020», published by the International Telecommunication Union «ITU».

«CARTE Assurances» : Change in the mode of governance

Following the decision of the Extraordinary General Meeting of «CARTE Assurances» held on March 22, 2021, the duties of Chairman and General Manager of the company have been dissociated. The Board has appointed Mr. Hassine Doghri as Chairman of the Board and Mr. Mehdi Doghri as General Manager.

Posthumous Tribute

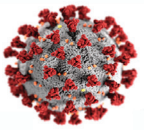
Mr. Abdelmajid Hafaiedh, founder and President of «SOCARGEST» which became «AON Tunisia» and then «ARS Tunisia», passed away on June 4, 2021. Peace to his soul.

International

Pandemic Tracker (COVID-19)

Confirmed Cases

197 390 089



Deaths

4 214 976

Active Cases

14 635 461

178 539 656

Last update: 30 July 2021

Source: https://www.worldometers.info

Mergers & Acquisitions

After several months of negotiations, Aon and Willis Towers Watson have terminated their merger project launched on March 9, 2020. The deal was opposed by the U.S. authorities, who considered that the transaction could impact prices and reduce innovation. This decision comes after the European Commission gave its approval to the project on July 9, 2021.

Appointments :

- Dr. Mohamed Ahmed MAAIT has been appointed Chairman of Africa Re's Board of Directors.
- Mrs. Petra Hielkema has been nominated President of the European Insurance and Occupational Pensions Authority «EIPOA». The appointment will take effect on September 1, 2021.
- Mr. William Malloy has been appointed Chairman of the Board of Board of Directors of Qatar Re.

Events

- The 2021 edition of the Rendez-Vous de Septembre reinsurance event has been cancelled due to covid-19 and will be held online only.
- The 47th Conference and Annual General Assembly of the African Insurance Organisation AIO will be held in Lagos, Nigeria from the 4th to 8th of September 2021 in Hybrid Format : both face-to-face and virtual.
- The 27th FAIR Conference & 3rd Sharm RDV will be held from 19 to 22 September 2021 in Sharm Sheikh, Egypt.
- In view of the current pandemic situation in Algeria, the 33rd GAIF Conference has been rescheduled to 2022.

Posthumous Tribute

Mr. Hadj Tahar Soufi, founder and Chairman of the Board of Directors of the International Insurance and Reinsurance Company «CIAR», passed away on July 4, 2021. Peace to his soul.

Activity Figures of The Tunisian Insurance Market
As at 31.03.2021

en MDT

At March 31st, 2021, The Insurance sector in Tunisia has been characterized by :

- The market generated a total turnover of TND 900 million, showing an increase of 3% over the same period last year.
- Total compensations reached TND 351 million up by 19% compared to 31.03.2020.
- A total number of issued policies of 843 146 with an increase of 4%.
- A total number of reported claims equal to 315 514 down by 2% over the same period last year.
- Investments reached TND 6 979 million, up by 9% compared to 31.03.2020.

	2019	2020	EVOL 20/19	31/03/2020	31/03/2021	EVOL 21/20
Turnover	**2 414**	**2 548**	**6%**	**871**	**900**	**3%**
Motor	1 068	1 096	3%	380	406	7%
Life	559	599	7%	169	167	-1%
Others	787	854	9%	323	327	1%
Claim Charges	**1 419**	**1 281**	**-10%**	**295**	**351**	**19%**
Motor	739	606	-18%	148	138	-6%
Life	179	188	5%	38	92	145%
Others	502	487	-3%	110	120	9%
Nbr of issued policies	**3 176 044**	**2 989 300**	**-6%**	**814 064**	**843 146**	**4%**
Motor	1 850 518	1 838 573	-1%	492 758	530 204	8%
Life	643 546	593 013	-8%	173 650	177 639	2%
Others	681 980	557 714	-18%	147 656	135 303	-8%
Nbr of Reported Claims	**1 402 967**	**1 268 185**	**-10%**	**323 267**	**315 514**	**-2%**
Motor	288 398	223 430	-23%	61 403	61 205	0%
Others	1 114 569	1 044 755	-6%	261 864	254 309	-3%
Investments	**6 196**	**6 847**	**10%**	**6 387**	**6 979**	**9%**

Happy Retirement to our dear colleagues
Mr Adnen Essaiem & Mr Ridha Jendoubi

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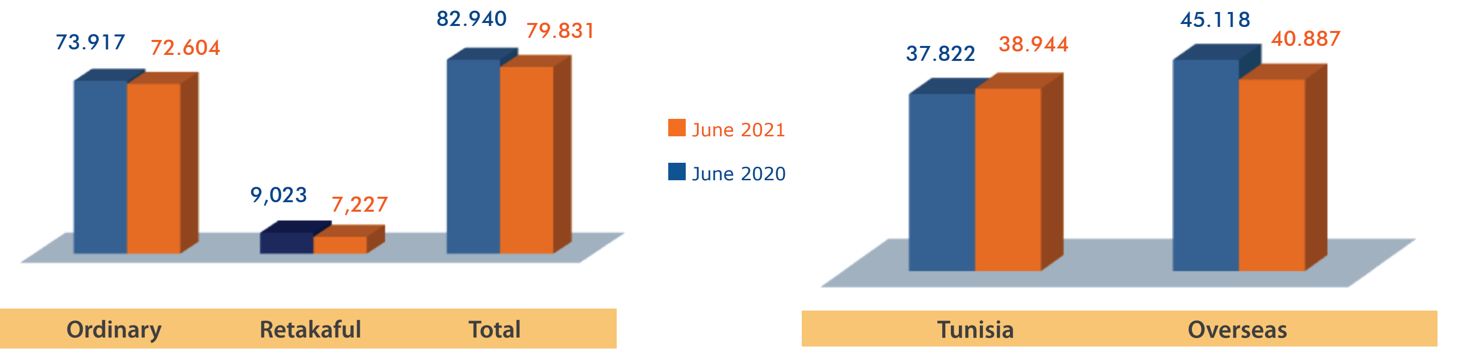
Activity Figures of Tunis Re
2nd Quarter 2021

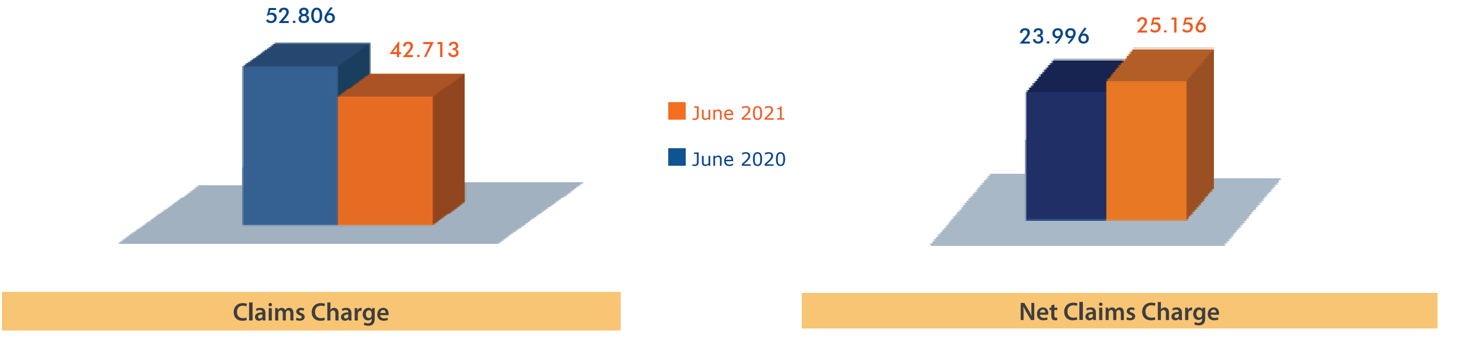
Turnover :

(M TND)



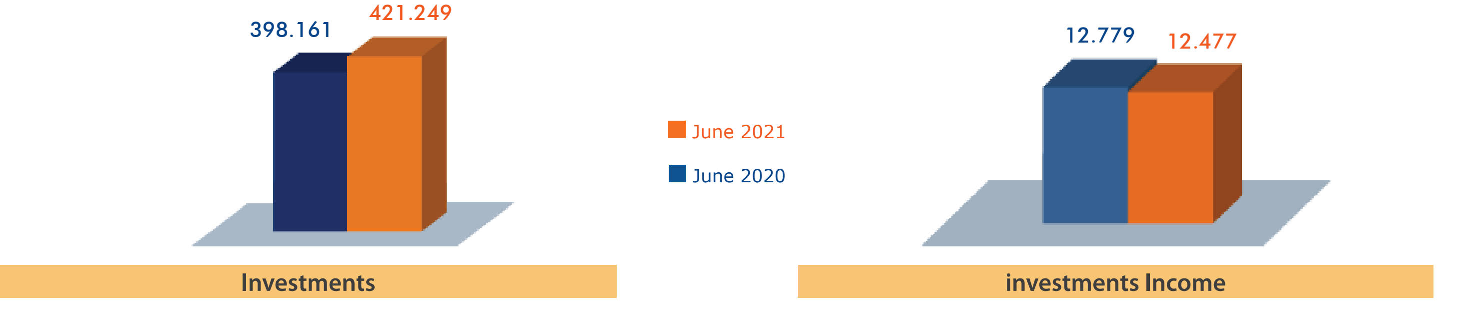
Claims Charge :

(M TND)



Investments :

(M TND)



Stock market : Figures as at 30.06.2021 of the listed Insurance Companies (In M TND)

Compagny	Premiums			Gross Claims Charge			Investments		
	June-21	June-20	Var%	June-21	June-20	Var%	June-21	June-20	Var%
STAR	202.913	210.318	-4%	130.190	97.900	33%	49.810	46.247	8%
ASTREE	117.609	109.923	7%	36.866	34.717	6%	19.775	20.966	-6%
BH Assurance	74.426	67.789	10%	43.420	29.903	45%	7.700	7.787	-1%
Assurances Maghrebia*	116.389	106.096	10%	51.574	40.615	27%	11.402	9.223	24%
Tunis Re	79.831	82.940	-4%	42.713	52.806	-19%	12.477	12.779	-2%

* Net Claims Charge

وَبَشِّرِ ٱلصَّٰبِرِينَ
ٱلَّذِينَ إِذَآ أَصَٰبَتْهُم مُّصِيبَةٌ قَالُوٓاْ
إِنَّا لِلَّهِ وَإِنَّآ إِلَيْهِ رَٰجِعُونَ

Our Dearly & Regretfully Departed

سعيد ردوش

Said Radouche

Said, the cheerful, the friendly, the optimistic;

Said, the generous, the kind, the gentle ;

Said, the friend, the brother, the colleague;

He will always be in our hearts.

We wish to share the sorrow of all his family during these difficult times.

Rest in peace - الله يرحمه