FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Tunis Re at National IFS 'AA(tun)'

Thu 20 Jun, 2024 - 12:10 ET

Fitch Ratings - Paris - 20 Jun 2024: 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 versus its local peers', benefiting from its leading domestic market position and its extensive international presence in higher-rated countries than Tunisia.

KEY RATING DRIVERS

Leading Domestic Market Position: Tunis Re is the leading reinsurer in Tunisia with strong domestic expertise and a large and developing international presence (57% of gross written premiums (GWP) in 2023). Its importance to Tunisia's economy is underpinned by its strong ties with all Tunisian cedents, the largest of which are also its shareholders. Fitch's assessment of the company's business profile is constrained by Tunis Re's limited operating scale and modest potential for further expansion into overseas business in higher-rated, foreign countries.

Adequate Capital: Tunis Re's scored 'Adequate' under our Prism - Global (excluding the US) in 2023, driven by its large capital base and low net exposure to catastrophe risk, which is offset by a high asset risk. The reinsurer's internal risk-based capital model, which is consistent with Solvency II standards and reviewed by an independent international auditor, had a comfortable solvency margin at end-2023.

Strong Profitability: Fitch believes that Tunis Re's earnings are strong for its rating, underpinned by solid underwriting performance. It reported a robust net combined ratio of 92.7% in 2023 (2022: 91.7%) in spite of the February 2023 earthquake in Turkey, which caused the company's Fitch-calculated gross loss ratio to surge to 65.2% in 2023 from 43% the prior year as Tunis Re's conservative reinsurance practices helped contain the net impact. The Fitch-calculated return on equity (ROE) stood at 7.7% in 2023 (2022: 8.6%).

We expect Tunis Re's solid underwriting expertise and high retrocession standards to mitigate earnings volatility resulting from foreign exchange (FX) movements or in the event of adverse international claims experiences.

High Domestic Assets Risk: Fitch views Tunis Re's investment portfolio as high-risk due to its significant asset concentration to Tunisia, primarily in the form of monetary and fixed-income investments. Fitch believes Tunis Re's balance sheet is more exposed to currency risk than its local peers from its unhedged currency mismatch between assets and liabilities from its extensive and developing international expansion. Currency risk is mitigated by the use of international retrocession programmes.

Effective Retrocession: The company's retrocession practices are effective and positive for the rating. It has developed strong business ties with highly rated international reinsurers. In 2023, its retention rate continued to increase as the company shifted its activity towards a less volatile treaty business. Its whole portfolio is subject to an excess of loss policy, while exposure to catastrophe risk remains largely retroceded. However, the company remains vulnerable to higher retrocession costs.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade:

-- Material improvements in Tunis Re's asset and business risk profile, which could result from a reduction in asset concentration to Tunisia, coupled with 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 a large deterioration in the company's retrocession policy and programme

-- Sharp deterioration in earnings resulting from reserve deficiencies, investment losses and weak underwriting discipline over a prolonged period

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.

MACROECONOMIC ASSUMPTIONS AND SECTOR FORECASTS

Click here to access Fitch's latest quarterly Global Corporates Macro and Sector Forecasts data file which aggregates key data points used in our credit analysis. Fitch's macroeconomic forecasts, commodity price assumptions, default rate forecasts, sector key performance indicators and sector-level forecasts are among the data items included.

RATING ACTIONS

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

PREVIOUS Page 1 of 1 10 rows NEXT

RATINGS KEY	OUTLOOK	WATCH
POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

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. 04 Mar 2024) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

- Prism Global (ex-U.S.) Model, v1.8.1 (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 https://www.fitchratings.com/rating-definitions-document details Fitch's rating definitions for each rating s

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.
