

MARKET PRESENTATION

THE TUNISIAN INSURANCE MARKET

By

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INTRODUCTION

A Favourable Economic Environment for the Growth of the Insurance Industry

The Tunisian economy has been undergoing a process of reforms and liberalisation after 10 years of state regimentation.

A prudent economic and fiscal agenda has resulted in sustained economic growth for over 10 years. Historically, Tunisia's growth is strongly tied to oil, phosphates, agriculture (olives, olive oil, oranges and dates) as well as tourism (close to 5 million visitors a year). The textile and mechanical (motor spare parts) industries also play an important part in the export sector. Tunisia is one of the few countries in the region that are listed in the medium income category.

In 2005, economic activity was satisfactory due to the performances recorded by some sectors such as service, agriculture, mechanical and electrical industries. Economic growth stood at 5.7% in 2005 as against 5.1% in 2004 and 4% in 2003.

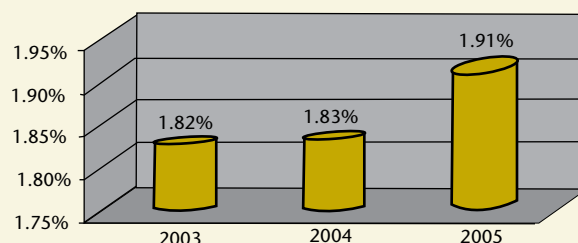
The Tunisian insurance market has posted remarkable growth as written premiums, at TD 712m, increased by 10.61%.

Penetration Rate below expectations

In millions of TD

Years	2003	2004	2005
GDP (Current price)	32.261	35.143	37.202
Penetration Rate	1.82%	1.83%	1.91%

Penetration Rate



OVERVIEW OF THE TUNISIAN INSURANCE MARKET

Legislative and regulatory framework:

A well-regulated sector, which has always prompted legislative innovation:

- The Insurance Code, promulgated by Decree n° 92-24 of 9 March 1992, complemented and modified by:
 - Decree n° 94-10 of 31 January 1994 on construction insurance
 - Decree n°97-24 of 28 April 1997 on export insurance
 - Decree n° 2001-91 of 7 August 2001

MARKET STRUCTURE AND EVOLUTION

A structured sector that is growing on a sustained basis

The market comprises the following

- Insurers: 17
- Reinsurers: 1

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- Insurance/Reinsurance Brokers: 40
- Off-shore companies operating with non residents and mainly involved in reinsurance: 7
- Other support services: 580 general Insurance agents, 20 Life agents, etc...

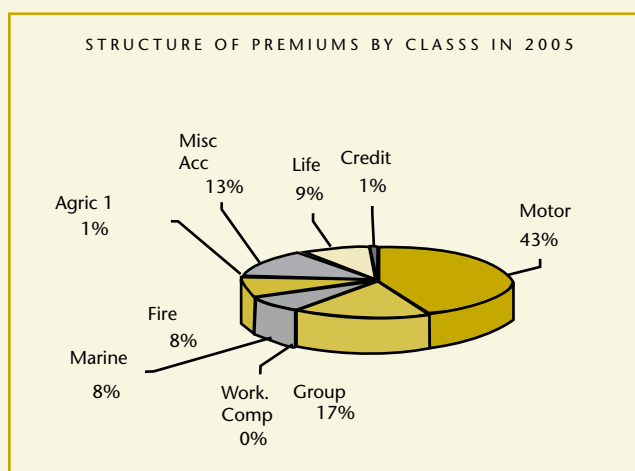
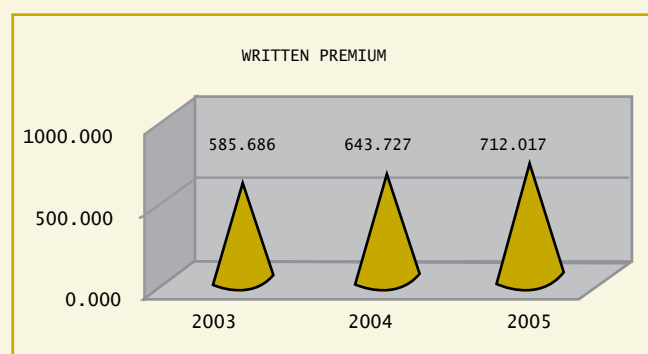
In millions of TD	2005	2004	Variation 05/04
Written premiums	712.017	643.726	10.61%
Claims	426.477	382.872	11.39%
Investments	1,149.150	1,042.811	10.20%
Shareholders' funds	252.920	245.208	3.15%
Net results	11.721	-9.112	228.63%

Evolution of major business indicators in the market:

In 2005, the major business indicators in the market were as follows:

Evolution of written premium by class of business in 2005 stood as follows

Class	2005		2004		variance	2003		variance
	Written premium	%	Written premium	%		Written premium	%	
Motor	308.654	44%	275.360	43%	12.09%	247.968	43%	11.05%
Group	117.175	17%	110.414	17%	6.12%	99.670	17%	10.78%
W o r k m e n compensation	-0.015	0%	-0.001	0%	1400.00%	0.004	0%	-125.00%
Marine	57.802	8%	56.309	9%	2.65%	55.577	10%	132%
Fire	59.089	8%	54.266	9%	8.89%	50.160	9%	819%
Agric	4.003	1%	3.637	1%	10.06%	4.289	1%	-15.20%
Misc. Accident	90.383	13%	75.375	12%	19.91%	70.516	12%	6.89%
Life	63.568	9%	56.493	9%	12.52%	46.347	8%	21.89%
Credit	6.360	1%	6.276	1%	1.34%	5.116	1%	22.67%
Total	707.019	100%	638.129	100%	10.80%	579.647	100%	10.09%
Reinsurance	4.998		5.598		-10.72%	6.039		-7.30%
Grand total	712.017		643.727		10.61%	585.686		9.91%

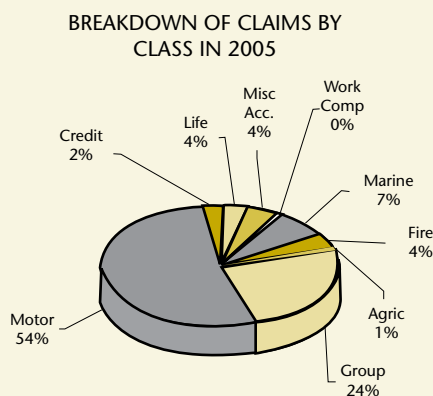


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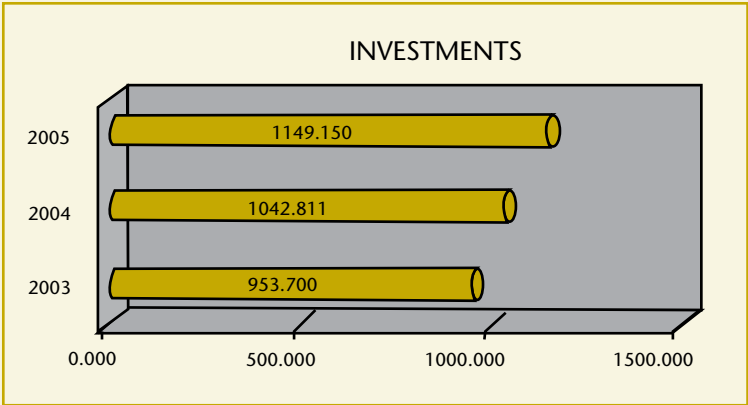
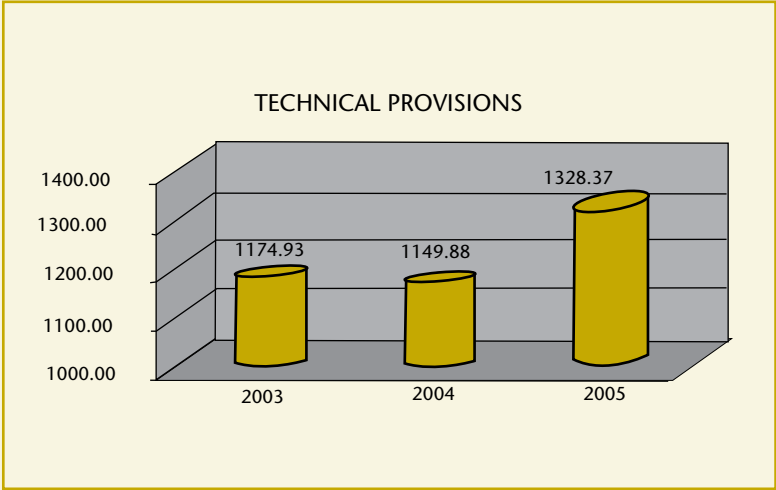
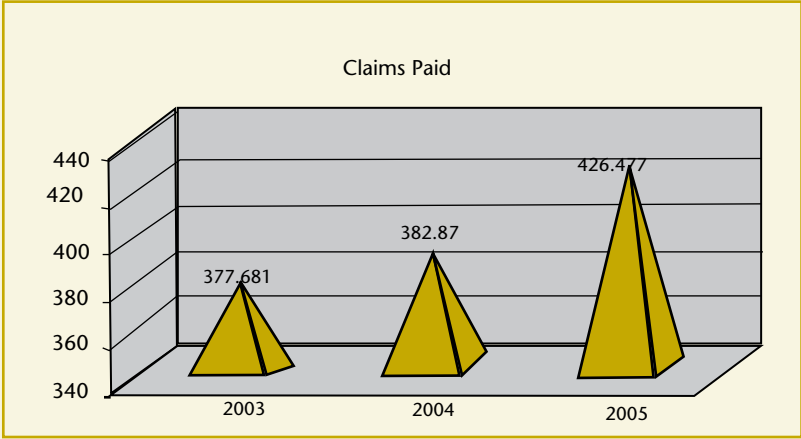
- In 2005, technical reserves increased to TD1,328.374m (including outstanding claims for Non Life TD 888.013m and outstanding claims for Life TD 12.668m) compared to TD 1,149.878m in 2004 (representing a growth of 15.52%)
 - Management expenses in 2005 increased to TD 117.374m compared to TD 103.568m in 2004 (representing a growth of 13.33%)
 - Reinsurance cessions attained TD 146.511m in 2005 compared to TD 129.361m in 2004 (representing a growth of 13.26%)
 - Investments increased to TD 1,149.150m in 2005 compared to TD 1,042.811m in 2004 (representing a growth of 10.20%)
 - Net Underwriting Results: a surplus of TD 11.721m in 2005 compared to a deficit of TD 9.112m in 2004
 - Balance sheet results: a profit of TD 7.978m in 2005 compared to a loss of TD 15.457m in 2004.
- In 2005, claims paid increased to TD 426.477m.

Evolution of claims paid by class (in millions of TD)

Class	2005		2004		variation
	Claims paid	%	Claims paid	%	
Motor	226.362	54%	199.304	53%	13.58%
Group	102.053	24%	100.152	26%	1.90%
Work. comp.	4.853	1%	5.161	1%	-5.97%
Marine	29.794	7%	8.756	2%	240.27%
Fire	15.374	4%	14.928	4%	2.99%
Agric	2.476	1%	3.556	1%	-30.37%
Misc. Accident	16.939	4%	17.960	5%	-5.68%
Life	17.312	4%	23.524	6%	-26.41%
Credit	7.882	2%	5.486	1%	43.67%
Total	423.045	100%	378.827	100%	11.67%
Reinsurance	3.432		4.043		-15.11%
Grand total	426.477		382.870		11.39%



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THE ROLE OF TUNIS RE IN THE TUNISIAN INSURANCE MARKET

In 2005, Tunis Re's premium income stood at TD 53m out of which 69% emanated from the local market, representing a market share of 25%.

In 2006, its paid up capital increased to TD 35m and its shareholders' funds stood at TD 44m.

Indeed, the company offers its cedants a wide range of services, the most important of which are:

- Prompt settlement of claims
- Placement of large risks through support from a network of international partners
- Designing and leading some reinsurance programmes
- Providing Quotations for proportional and Non-Proportional treaties
- Pool Management (Decennial Liability, Marine, Aviation...)
- Providing technical assistance to its partners.

PROSPECTS

Reforms initiated

Flexible legislation, which follows the evolution of the sector and encourages its development:

The insurance sector in Tunisia has witnessed continuous major reforms since 1992, few of which can be cited as follows:

- **1992:** Promulgation of the Insurance Code (implemented in 1993), which mainly aims at clarifying the contractual relationship between the insurers and the insureds, regulating insurance-related professions, and establishing prudential rules for insurance companies.
- **1993:** Lifting of prior approval for the transfer of reinsurance balances.
- **1994:** Promulgation of a law on compulsory decennial liability insurance within a single contract for the construction sector. This law aims at protecting national assets by engaging stakeholders' liability and favouring prompt compensation in the event of claims.

- **1997:** Promulgation of a law on export insurance and its incorporation into the Insurance Code. This law basically aims at eliminating monopoly and opening up that class of business to all insurance companies as well as opening the export insurance sector to non-resident exporters, and then providing cover for pre-shipment risks.

- **1997/1998:** The tax laws applicable to insurance contracts (Financial laws for the budget years 1997 and 1998) were reviewed, thereby making it possible to simplify the tax scale applied to the different insurance categories (2 applicable rates; i.e. 5 % for marine and air transport risks and 10 % for the other classes instead of the previous 6%), reduce the rates and remove taxes on Life assurance. Export insurance, decennial liability as well as agricultural insurance written with specialised mutual companies, were also tax exempted. In addition, the ceiling on deductibles for Life assurance was raised (TD 2,000 instead of TD 500) and registration fees waived on succession. The insurance tax system also includes a contribution to the Civil Protection and Road Safety Funds as well as the Motor Guarantee Insurance Funds.

- **1999:** The introduction of an export financing pre-shipment cover (Decree n° 99-95). This enables SMEs in the export business to access bank financing without having to provide collaterals (mortgages and other forms...)

- **2000:** Establishment of an accounting scheme that incorporates the accounting standards applicable to the insurance sector.

- **1998 –1999- 2000:** Preparation of a general study on insurance sector development, the outcome of which would serve as the basis for a comprehensive reform of the insurance industry.

- **2000:** A study aimed at determining the weaknesses of agricultural insurance and developing that class with a view to facilitating access to financing.

- **2003:** Health Insurance

- **2004:** Bancassurance, defined as the marketing of insurance products through distribution channels such as banks and postal services, aims at developing Life business, mobilising savings and protecting human capital.

- **2005:** Motor Insurance: The new law of 15 August 2005 seeks to improve the underwriting results of the class so far characterised by chronic deficit and accelerate the claims payment procedure
- **2006:** Decree n°2006-2336 of 28 August 2006, on the intervention modalities of the Road accidents prevention fund, its mode of operation, financial base and contribution rates to the fund.

ENVISAGED REFORMS

The reforms shall focus on two key areas

Reinforcement of control

In the first instance, the control function needs to be separated from the regulatory and sector development function. To that end, the Insurance Department, which serves as the supervisory body, was transformed into a general insurance commission, where supervision plays the paramount role.

Therefore, an Insurance Supervisory commission was created mainly to ensure constant supervision of insurance and insurance-related professions.

This also meant improving the normal control procedures by way of eliminating pre-control notification in line with international standards.

Development of insufficiently exploited Classes of insurance:

This mainly concerns agricultural insurance, Life assurance and personal lines.

Agricultural Insurance

A number of measures have been taken:

- Alleviating the cost of insurance by integrating it into the agricultural investment scheme thereby enabling farmers to enjoy subsidy;
- Improving on rates of cover by extending insurance to all agricultural business financed through bank loans;
- Bridging the gap between insurance providers and farmers by authorising bancassurance for agricultural risks;
- Improving insurance services by designing multi-risk contracts adapted to the needs of farmers and the peculiarities of the regions, simplifying procedures and reducing delays in risk surveys and claims payment,

granting a 50% advance to farmers on the amount of estimated damage advised by the adjuster in the event of litigation, so as to enable the farmer prepare for the next crop season;

- Encouraging group insurance for agricultural risks by applying preferential rates;
- Reduction of taxes on agricultural insurance for non mutual companies from 10% to 5%.

Life Assurance

With regard to Life assurance, contrary to the pattern in developing countries where this class occupies a large proportion in the insurance sector, its weight in Tunisia still remains low. In 2005, it accounted for 9% compared to a world average of 60%. Life assurance, a major tool for mobilising savings, has enjoyed a series of tax incentives, resulting in total exemption, irrespective of the type of contract, individual or group. The Finance Law of 2002 removed obstacles that up till then discouraged employees and employers from subscribing group policies. This law provides that premiums paid for insurance be deducted from taxable income accruing from the total amount of the employer's taxable profit and by extension the employee's share to be deducted from the total amount of his taxable income.

As part of efforts to encourage group life policies, the new insurance code has instituted a precise legal framework to regulate that class of business. Mechanisms other than tax-related incentives have also been explored to develop Life assurance.

A number of such mechanisms include: the introduction of bancassurance as a means of marketing Life products, supporting life policyholders by granting them higher privileges if the insurance company encounters difficulties. These came in addition to maintaining strict control on Life and Non Life reserves. The new insurance code also envisages the constitution of specific prudential rules for Life business and softening of operating conditions for Life insurers.

Personal Insurance

As the Motor Insurance services improve, a higher potential for risk development for individuals on the Tunisian market will emerge.