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March 28, 2011

# Potential Growth Ahead For Maghreb Insurers May Test Their Risk Management Abilities

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# Potential Growth Ahead For Maghreb Insurers May Test Their Risk Management Abilities

Positive advances in the past decade and good long-term economic prospects are forming the foundation for potentially high growth in three insurance markets based in the Maghreb: Algeria, Morocco, and Tunisia. In Standard & Poor's Ratings Services' view, the potential expansion in insurance business could outpace annual GDP growth over the long term in the three countries, as penetration rates are currently low. Many business lines are either untapped or in their infancy, including life, savings, and home insurance. Fast-developing infrastructures and expanding real estate activity will also likely lift demand for insurance.

The political transition in Tunisia and the resulting uncertainties weighing on the economy could, however, temporarily bring domestic insurance growth to a halt. In particular, we believe increased investment, credit, and market risks may lead insurers to focus more on managing the risks of their inforce portfolios and less on generating growth.

In parallel, we believe that insurers in Algeria, Morocco, and Tunisia generally still have work to adapt their risk management practices to levels commensurate with their growth prospects, as they continue their efforts, alongside regulators, to strengthen the discipline of the insurance sector. Mounting demand for insurance is also likely to challenge insurers as they adapt their product offerings, enhance transparency toward policyholders and other stakeholders, and implement reinforced risk management practices.

## Similarities And Differences In The Algerian, Moroccan, And Tunisian Insurance Markets

These three markets diverge markedly in terms of their competitive landscape, investment practices, operating performance, and capital adequacy, particularly in the following areas:

- Level of state intervention. Algeria features the greatest number of state-owned companies and has a protective policy toward external investors seeking controlling stakes in local companies.
- Degrees of distribution power. Morocco appears most advanced in terms of bancassurance, and consequently in the volume-shaping life and savings lines.
- Risk-adjusted capital adequacy. Based on our estimates, aggregate capital adequacies appear to contrast across the three markets. Using reported figures, Algerian companies are likely to have relatively comfortable risk-adjusted capital adequacy, in our opinion, versus Tunisian companies' only adequate levels. Meanwhile, the Moroccan insurance sector's risk-adjusted capital adequacy, in our view, faces constraints from insurers' high exposure to equity markets.
- Investment market deepness. Different stages of maturity play a role in shaping investment practices and risk taking. In the Algerian market, which we view as nascent, investments in assets are confined to government debt or deposits. Tunisia boasts a broader investment market, while the Moroccan market appears the most advanced in terms of equity investments.
- Levels of underwriting performance. Based on reported figures, the three markets show fairly different combined ratios (for Algeria, Morocco, and Tunisia, see tables 4, 5, and 6, respectively).

In our opinion, factors in common include:

- Good long-term growth potential.
- Increasing regulatory supervision, featuring many recent actions to improve market conditions.
- Work still ahead on risk management abilities, if these markets adopt risk-adjusted capital adequacy and risk-focused supervisory frameworks.
- Improving trends in underwriting performance over the past five years.
- Risks weighing on capital adequacy, mostly from invested assets and catastrophe risk.

## Insurers That Standard & Poor's Rates In The Maghreb

We rate the following insurers:

- Moroccan reinsurer Société Centrale de Réassurance (SCR; BBB+/Stable/--). In March 2010, we raised our ratings on SCR to 'BBB+' from 'BBB', to reflect our view of its strong link to and critical importance for the Kingdom of Morocco (local currency BBB+/Stable/A-2, foreign currency BBB-/Stable/A-3).
- BEST RE (L) Limited and BEST RE Family (L) Limited (both BBB+/Positive/--), respectively writing property/casualty (P/C) and life insurance, which have succeeded BEST RE, after it moved its headquarters to Malaysia from Tunisia. We assigned ratings to these two new entities in October 2010, after withdrawing our ratings on BEST RE, a subsidiary of takaful player Salama/Islamic Arab Insurance Co. (P.S.C.) (Salama; BBB+/Positive/--) We subsequently revised the outlooks on the two new BEST RE entities to positive from stable in December 2010, reflecting our view of prospects for improved business and financial profiles across the whole Salama group.
- Tunisia-based Compagnie d'Assurances et de Reassurances Tuniso-Europeenne (CARTE; BBB-/Negative/--). On March 17, 2011, we revised the outlook to negative from stable and affirmed our 'BBB-' insurer financial strength and counterparty credit rating on CARTE. The outlook revision reflects our view that CARTE's business and financial profile will likely weaken during 2011 as a result of the economic slowdown in Tunisia during its political transition.

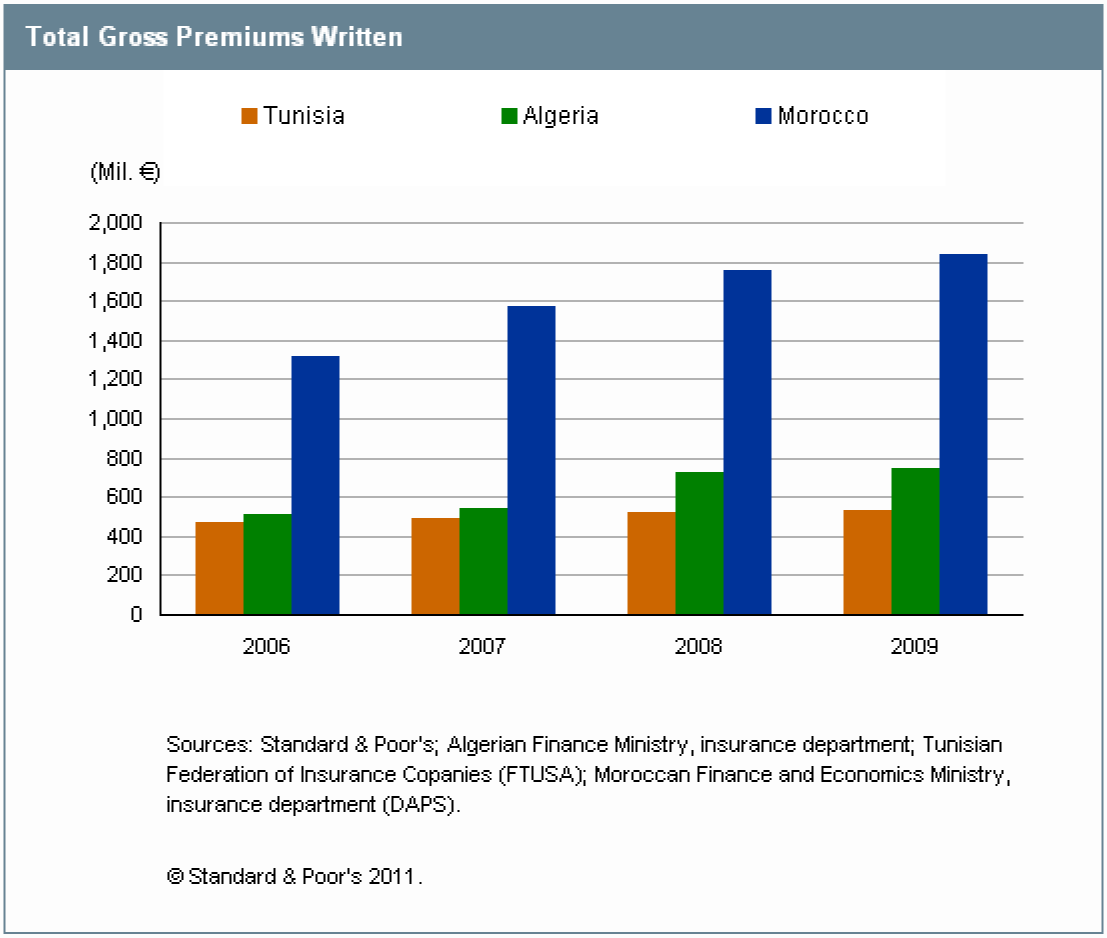
## Competitive Landscape: Government Efforts In Recent Years Are Fueling Increasingly Healthy Competition

Recently growing economies and liberalizing markets, mounting demand in life and health, new distribution vehicles, and very low insurance penetration rates could, in our view, provide the impetus for possible volume jumps in insurance business in the Maghreb (specifically Algeria, Morocco, and Tunisia in this report).

The current political transition in Tunisia and its ensuing impact on the economy could, however, put domestic insurance growth temporarily on hold. In our opinion, the shift also fuels uncertainties on actions the new government could take, which might affect insurance pricing and coverage. This market's underlying potential leads us to believe, however, that growth is still ahead in the long term.

The disparity in the three markets stems, in our view, from contrasts in their stages of maturity, state intervention levels, their degree of openness to foreign investors, the maturity of investment markets, and distribution networks. At the same time, we believe these markets share common growth drivers in savings, pension, health, and mass market P/C insurance, which have contributed to a steady rise in total gross premiums written in recent years (see chart below).

**Chart**




In parallel, insurance markets in the Arab and Islamic worlds have witnessed the development of Islamic cooperative insurance, or takaful. Established for years in Southeast Asia, takaful has recently recorded substantial growth in the Gulf region. Consequently, many observers are seeking to evaluate takaful's potential development in the Maghreb.

We believe takaful is likely to carry good growth potential in the region, mostly in the life and savings businesses (generally called "family takaful"). We think takaful's expansion will hinge largely on the regulators' reactivity in creating a transparent framework. Insurers' ability to offer products and compliant investment funds that are sufficiently liquid and transparent is also key prerequisite for success. We think growth in this segment could also accompany that of unit-linked business, where development remains in the early stages.

## Algeria: ample room and impetus to grow

Based on 2009 premium volumes of Algerian dinar (DZD)77.3 billion (€754 million), we consider the Algerian insurance market out of step with the country's apparent potential (see table 1). Insurance penetration is still minimal, at only 0.7% of the total population, and insurance premiums per capita stood at €23.35 in 2009, excluding national health plan figures.

**Table 1**

| **Algeria: Competitive Landscape Statistics** | | | | |
|---|---|---|---|---|
| **(DZD billion)** | **2006** | **2007** | **2008** | **2009** |
| Nominal GDP | 8,464 | 9,410 | 11,043 | 10,212 |
| Nominal GDP (year-on-year % change) | 12.2 | 11.2 | 17.4 | (7.5) |
| Population (million) | 33.4 | 33.9 | 34.4 | 34.9 |
| Total gross premiums written | 46.5 | 53.6 | 67.6 | 77.3 |
| Of which: Life | 2.7 | 3.5 | 5.1 | 5.8 |
| Of which: Property/casualty | 43.8 | 50.2 | 62.1 | 71.5 |
| Insurance penetration rate (%) | 0.5 | 0.6 | 0.6 | 0.7 |
| Insurance premiums per capita (DZD units) | 1,393 | 1,582 | 1,966 | 2,179 |

DZD--Algerian dinar. Sources: Standard & Poor's, Institute of International Finance, Algerian Finance Ministry, insurance department

Premiums have risen sharply, however, in recent years: 14.3% in 2009, 26.1% in 2008, and 15.2% in 2007. Growth stems mainly from the active and demanding oil and gas sectors and housing insurance. Motor is still the dominant business line, representing 46% of premiums. Life and savings remain underdeveloped. Still, we expect that the business mix will over time shift toward savings because of the slow pick up in bancassurance since its introduction in Algeria in 2006.

The market features 16 insurers and one national reinsurer, Compagnie Centrale de Réassurance. But 80% of total premium volumes are concentrated at four state-owned companies: SAA, CAAR, CAAT, and CASH. The market has been open to privately owned companies only for the past 10 years. Still, we believe that most of the recent growth in premiums comes from nonstate owned companies.

Algeria showed additional openness in 2006, allowing foreign investors to enter the market. Various European players, and particularly French insurers, have reiterated their interest in the Algerian market based on its expected potential. We believe, however, that the government's limit on foreign-owned stakes to 49% could be a hurdle for foreign investors seeking to control their subsidiaries and strategic orientations. Currently, only one insurance subsidiary of French banking and insurance group BNP Paribas, Cardif El Djazair, operates in Algeria. France-based composite insurer AXA, which is already a prominent player in neighboring Morocco, was recently granted authorization to operate in Algeria. MACIF, the French mutual insurer, is also entering the market through a minority interest in a green field joint subsidiary with SAA.

### Morocco: One of the largest insurance markets in the Arab world

Total premiums of MAD20.9 billion (€1.8 billion) in 2009 make Morocco the No. 2 insurance market in Africa, behind South Africa, in addition to its prominent position in the Arab world (see table 2). Insurance penetration is still limited by European standards, however, considering the 3.0% penetration rate and insurance premiums per capita of €58 in 2009.

**Table 2**

| **Morocco: Competitive Landscape Statistics** | | | | |
|---|---|---|---|---|
| **(MAD billion)** | **2006** | **2007** | **2008** | **2009** |
| Nominal GDP | 577.3 | 615.4 | 688.8 | 732.2 |
| Nominal GDP (year-on-year % change) | 9.4 | 6.6 | 11.9 | 6.3 |
| Population (million) | 30.9 | 31.2 | 31.6 | 32.0 |
| Total gross premiums written | 14.7 | 17.7 | 19.7 | 20.9 |



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**Table 2**

| Morocco: Competitive Landscape Statistics (cont.) | | | | |
|---|---|---|---|---|
| Of which: Life | 4.1 | 5.9 | 6.6 | 6.7 |
| Of which: Property/casualty | 10.6 | 11.8 | 13.2 | 14.2 |
| Insurance penetration rate (%) | 2.6 | 2.9 | 2.9 | 2.8 |
| Insurance premiums per capita (MAD units) | 477.6 | 566.0 | 625.1 | 651.9 |

MAD--Moroccan dirham. Sources: Standard & Poor's, Institute of International Finance, Moroccan Ministry of Economics and Finance, insurance department.

The market has witnessed strong premium growth: 5.9% in 2009, 11.8% in 2008, and 19.9% in 2007. Jumps in life and savings insurance have reshaped the market's business mix. Life and savings currently make up a third of total premiums, exceeding motor volumes since 2008. Since authorities authorized banking outlets to sell life insurance policies in 2005, bancassurance has been the growth catalyst. It carries an overall 31% market share while accounting for 50% when considering only life and savings. Motor and accident and health also fuel growth, contributing 30% and 21% of market volumes, respectively.

Morocco has 16 direct insurers and one national reinsurer. The market has undergone major consolidation since 2006, particularly with healthier insurers taking over insurers in difficulty, as a result of reinforced supervision. The market is also concentrated, with the five biggest companies generating more than 70% of total premiums.

In the Maghreb, Morocco appears to be the most open to foreign groups. It has free trade agreements with the U.S. and the EU. Well established subsidiaries of French groups operate in Morocco, such as AXA Maroc, 100% owned by AXA, and La Marocaine Vie, a subsidiary of banking group Société Générale. The Crédit Mutuel banking group also has a 20% stake in Morocco's leading insurer RMA Watanya. Local subsidiaries of French banks, have gained foothold as insurance product distributors, taking advantage of bancassurance growth. These include BMCI Assurance (a captive subsidiary of BMCI Bank, a member of BNP Paribas), and Crédit du Maroc Assurance, a captive of Crédit du Maroc bank, a subsidiary of French banking group Credit Agricole S.A..

### Tunisia: The changing political landscape may put a temporary drag on growth

We believe that demand for insurance in Tunisia is set to increase in the long term. For this year, though, the current government change in the country will, in our view, likely put temporary brakes on growth. Conditions may also prompt foreign players to postpone any plans for entering the Tunisian market and slow development in the country's infrastructure and tourism sectors and trade, which are main feeders for insurance growth.

Total premium income topped the billion mark in Tunisian dinars, standing at TND1.02 billion (€536 million) (see table 3). Like its Maghreb neighbors, the Tunisian insurance market reported solid growth over the past three years, with premium volumes up 6.4% in 2009, 9.6% in 2008, and 9.6% in 2007. Likewise, the insurance penetration rate and average premiums per capita also remain low at 1.9% and €51, respectively, in 2009.

**Table 3**

**Tunisia: Competitive Landscape Statistics**

| (TND billion) | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|
| Nominal GDP | 41.4 | 45.6 | 50.4 | 53.4 |
| Nominal GDP (year-on-year % change) | 9.5 | 10.1 | 10.5 | 6.0 |
| Population (million) | 10.1 | 10.2 | 10.3 | 10.5 |
| Total gross premiums written | 0.80 | 0.87 | 0.96 | 1.02 |
| Of which: Life | 0.08 | 0.10 | 0.11 | 0.14 |

**Table 3**

| Tunisia: Competitive Landscape Statistics (cont.) | | | | |
|---|---|---|---|---|
| Of which: Property/casualty | 0.72 | 0.78 | 0.85 | 0.88 |
| Insurance penetration rate (%) | 1.9 | 1.9 | 1.9 | 1.9 |
| Insurance premiums per capita (TND units) | 79 | 85 | 93 | 97 |

TND--Tunisian dinar. Sources: Standard & Poor's, Institute of International Finance, Tunisian Federation of Insurance Companies.

Motor insurance accounts for 45% of total premiums. In commercial lines, strong infrastructure development has sustained insurance demand. As in many developing markets, life insurance is growing fast, but still accounts for a limited portion of total volumes (13% in 2009). Life products sold are mainly creditor term life insurance, while savings products are gaining ground thanks to the development of bancassurance and tax incentives.

Eighteen direct insurers and one local reinsurer operate in Tunisia. The market is more fragmented than Algeria and Morocco, with the top five insurers making up less than 60% of market volumes. No foreign group has an insurance subsidiary in Tunisia, to date, although some French groups have had stakes in local players (for instance, MMA sold its 35% stake in CARTE in 2007). In our view, the absence of foreign-owned subsidiaries stems from impediments to owning controlling stakes in local entities. Still, in 2008, French insurer Groupama S.A. purchased a 35% stake in Tunisia's largest insurer, state controlled Société Tunisienne d'Assurances et de Réassurances (STAR), while Italian composite insurer Generali has set up Maghrebia Vie with local player Maghrebia.

## Operating Performance: Underwriting Results Are Generally Improving, But Uncertainty Still Lingers On Investment Volatility

Regulators, over the past 10 years, have made substantial inroads in their respective domestic insurance markets, shifting practices toward tighter risk management, and increasingly formalizing the regulatory and supervisory framework. We believe that these actions have been largely favorable for insurers and they have shifted operating performance to a more stable playing field. As a result, insurers' performances in recent financial years show positive underwriting results overall.

Investment earnings are closely linked to local investment market performances, given the regulations that prevent insurers from making large investments in foreign markets. During the 2008 global financial downturn, local stock markets resisted well compared to their European counterparts. However, because investment markets are developing substantially, we believe that their historical performance may not be indicative of future trends. Also, in our view, market volatility will likely increasingly test insurers' financial strength.

### Algeria: Good aggregate underwriting performances

Based on reported figures, we view the aggregate underwriting performance of insurers in Algeria as good (see table 4). In recent years, insurers have reported sound combined ratios, both overall and across business lines.

**Table 4**

**Algeria: Operating Performance Statistics**

| (DZD million) | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|
| Total gross premiums written (GPW) | 46,542 | 53,630 | 67,629 | 77,339 |
| Technical result | N.A. | 6,931 | 9,137 | 8,143 |
| Net income (aggregated bottom line) | 2,488 | 1,227 | 4,412 | 5,539 |
| Net income/GPW (%) | 5.3 | 2.3 | 6.5 | 7.2 |

**Table 4**

| Algeria: Operating Performance Statistics (cont.) | | | | |
|---|---|---|---|---|
| P/C: Estimated net combined ratio (%) | N.A. | 81.1 | 78.9 | 83.8 |

DZD--Algerian dinar. P/C--Property/casualty. N.A.--Not available. Sources: Standard & Poor's, Algerian Finance Ministry, insurance department; National Insurance Council.

We observe, though, that the dominance of state-owned companies has led to state-set prices and low competition. In motor, the government gradually upped pricing by 20% in recent years, which has helped to lift profitability. Although this currently appears to contribute to good underwriting earnings for insurers in general, we think earnings could undergo mounting pressure as the market grows, pricing is liberalized, and privately owned companies gain market share. On the downside, insurers generally have low investment income, owing to the predominance of sovereign debt and deposits bearing low interest rates that make up the bulk of insurers' investments. This limited investment income has led to record low returns on equity and low returns on revenues.

### Morocco: Steady improvement in underwriting profitability

Underwriting profitability has strengthened in recent years, although we continue to view current combined ratios overall as high compared those in Tunisia and Algeria (see table 5).

**Table 5**

**Morocco: Operating Performance Statistics**

| (MAD million) | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|
| Total gross premiums written (GPW) | 14,733 | 17,670 | 19,747 | 20,920 |
| Technical result | (2,968) | (745) | (353) | 22 |
| Financial result | 4,341 | 10,370 | 4,331 | 3,916 |
| Technical result + Financial result | 1,373 | 9,625 | 3,978 | 3,938 |
| Net income (aggregated bottom line) | 961 | 8,188 | 3,099 | 3,080 |
| Net income/GPW (%) | 6.5 | 46.3 | 15.7 | 14.7 |
| P/C: Estimated net combined ratio (%) | 122.7 | 102.4 | 100.7 | 96.2 |

MAD--Moroccan dirham. P/C--Property/casualty. Sources: Standard & Poor's; Moroccan Ministry of Economics and Finance, insurance department.

In the past 10 years, the Moroccan market witnessed insurer takeovers as a result of insufficient risk controls and weak balance sheets. This led the regulator to force mergers, formalize the national insurance code in 2002, introduce further compliance rules, such as solvency reports, and to require reserve reinforcements. We expect the tightening in risk management and reporting to help stabilize underwriting results over the next few years in most business lines. Meanwhile, the sector has taken advantage of booming investment markets. Generally high equity exposure has boosted earnings, with investment income making up the bulk of insurers' bottom lines in the past four years. The large exposure leaves bottom-line results vulnerable to market volatility, however.

### Tunisia: Uptick in underwriting profitability in 2007 on regulatory induced drop in claims costs

Tunisian authorities' introduction, in motor insurance, of a claim scale for bodily injury costs in 2007 has had positive repercussions for reported underwriting profitability (see table 6). The scale triggered a sharp fall in claims costs for most market players. Consequently, combined ratios have dipped below 100%, because motor is the largest business line for most Tunisian insurers.

**Table 6**

**Tunisia: Operating Performance Statistics**

| (TND million) | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|
| Total gross premiums written (GPW) | 795.8 | 872.1 | 955.6 | 1017.0 |
| Technical result | (27.7) | 10.1 | 55.1 | 38.6 |
| Financial result | 56.9 | 69.1 | 77.0 | 86.9 |
| Technical result + Financial result | 29.2 | 79.3 | 132.1 | 125.5 |
| Net income (aggregated bottom line) | 29.7 | 68.1 | 117.1 | 129.4 |
| Net income/GPW (%) | 3.7 | 7.8 | 12.3 | 12.7 |
| P/C: Estimated net combined ratio (%) | 105.3 | 98.6 | 91.4 | 92.7 |

TND--Tunisian dinar. P/C--Property/casualty. Sources: Standard & Poor's, Tunisian Federation of Insurance Companies (FTUSA).

Steady financial results have also contributed substantially to enhance bottom lines, because insurers mostly invested in government bonds and local securities that performed well in the past three years. However, the current market uncertainties are likely in our view be a source of weakness for investment markets in 2011, which in turn might dampen bottom lines and increase credit and market risks carried by insurers.

## Capital Adequacy: Contrasting Levels Across Markets

Solvency regimes applicable in the region are mostly derived from Solvency I. The local regulators are contemplating the adoption of a Solvency II-like regime, although we understand they have carried out no quantitative studies so far. Instead, some regulators, for instance Morocco, have introduced additional compliance requirements, such as solvency reports. If the region implements a risk-based regime such as Solvency II, we believe it is likely to be much more costly and demanding than the current regimes. Key factors that will likely bolster insurers' capital requirements are historical underwriting volatility, only recent regulatory efforts in risk management, investment concentration risk, and high market and counterparty risks.

Cessions to reinsurers are important, but differ across countries in the region. Reported aggregate reinsurance cession rates are running at 11% in Morocco, 20% in Tunisia, and 35% in Algeria. The three countries have their respective local reinsurance champions that are mostly state-owned except in Tunisia: Société Centrale de Réassurance (SCR) in Morocco, Compagnie Centrale de Réassurance (CCR) in Algeria, and privately owned Compagnie Tunisienne de Réassurance (Tunis Re) in Tunisia. Each company holds a leadership position in its respective domestic market. SCR and CCR also act as legal reinsurers (meaning they assume 5% to 10% of direct market premiums on a quota share basis).

We believe that one of the biggest challenges for the industry is the coverage of natural catastrophe and extreme event costs. The region is exposed to earthquake, drought, and flood risks. We believe that national players alone, excluding support from their respective governments and from foreign insurers, may lack capacity to cover these risks. Recent trends in Algeria and Morocco, and more generally in Africa, show increasing market interest in the valuation and coverage of catastrophe claims. In 2010, Moroccan authorities approved a bill announcing the upcoming creation of compulsory natural catastrophe insurance. In Algeria, natural catastrophe coverage has been mandatory since 2003. Still, the implementation of these measures gives rise to many questions, particularly when it comes to funding plans.

Investment-linked exposures--namely equity, credit, and concentration risk--are likely to be heavy capital consumers.

The extent of this consumption for insurers, however, varies from one market to another. In Morocco, insurers appear to carry greater exposure to equities than in Algeria and Tunisia, given the market's relatively advanced stage of maturity.

### Algeria: Capital adequacy appears comfortable given insurers' currently reported risks

In Algeria, regulatory required capital for insurers is based on nominal amounts depending on the type of business but not on volumes. The regulator raised nominal amounts in 2009 to DZD1 billion for life insurers, DZD2 billion for P/C insurers, and DZD5 billion for reinsurers. This increase resulted in the reinforcement of capital adequacies, in our opinion. We currently estimate that Algerian insurers' capital adequacy levels are comfortable with regards to reported incurred risks (see table 7). Credit and counterparty risk appears to be one of the biggest capital consumers. Most insurers focus investments on government bonds and deposits.

**Table 7**

**Algeria: Capital Adequacy Statistics**

| (DZD million) | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|
| Total shareholders' funds | N.A. | 55,604 | 64,277 | 86,152 |
| Total invested assets | N.A. | 77,337 | 93,661 | 113,880 |
| Technical reserves | 53,617 | 60,358 | 72,847 | 83,756 |
| Total gross premiums written | 46,542 | 53,630 | 67,629 | 77,339 |
| Total net premiums written (NPW) | 31,014 | 36,612 | 43,374 | 50,347 |
| Reinsurance utilization (%) | 33.4 | 31.7 | 35.9 | 34.9 |
| Total shareholders' funds/NPW (%) | N.A. | 151.9 | 148.2 | 171.1 |
| Total shareholders' funds/total invested assets (%) | N.A. | 71.9 | 68.6 | 75.7 |
| Total shareholders' funds/technical reserves (%) | N.A. | 92.1 | 88.2 | 102.9 |

DZD--Algerian dinar. N.A.--Not available. Sources: Standard & Poor's; Algerian Finance Ministry, insurance department; National Insurance Council.

### Morocco: Stiffening controls, but exposure to equities weighs on capital adequacy

Morocco has sharpened its focus on capital adequacy in the past 10 years. The Direction des Assurances et de la Prévoyance Social (DAPS; Moroccan Ministry of Economics and Finance insurance department) currently encourages insurers to hold 1.5x the minimum capital requirement under Solvency I. In 2006, the Moroccan regulator took its first steps toward a more risk-based framework, increasing regulatory requirements in areas such as solvency reports and risk mapping, and introducing stress testing. We understand the Moroccan authorities are considering adopting Solvency II. In our opinion, the Moroccan insurance sector could witness some capital pressure if a risk-based framework is put in place, given the sector's high exposure to local equities, reportedly representing nearly 68% of total invested assets.

**Table 8**

**Morocco: Capital Adequacy Statistics**

| (MAD million) | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|
| Total shareholders' funds | 12,398 | 20,285 | 23,269 | 25,213 |
| Total invested assets | 70,844 | 85,405 | 91,855 | 99,152 |
| Technical reserves | 69,828 | 77,163 | 81,064 | 90,742 |
| Total gross premiums written | 14,733 | 17,670 | 19,747 | 20,920 |
| Total net premiums written (NPW) | 12,452 | 15,294 | 16,217 | 18,623 |
| Reinsurance utilization (%) | 15.5 | 13.4 | 17.9 | 10.9 |
| Total shareholders' funds/NPW (%) | 99.6 | 132.6 | 143.5 | 135.4 |

**Table 8**

| Morocco: Capital Adequacy Statistics (cont.) | | | | |
|---|---|---|---|---|
| Total shareholders' funds/total invested assets (%) | 17.5 | 23.8 | 25.3 | 25.4 |
| Total shareholders' funds/technical reserves (%) | 17.8 | 26.3 | 28.7 | 27.8 |

MAD--Moroccan dirham. Sources: Standard & Poor's; Moroccan Ministry of Economics and Finance, insurance department.

### Tunisia: Increased supervision and higher minimum capital requirements

The implementation of Solvency I regulation in 2002 and the revision of the local insurance code in 2006 resulted in stricter supervision and higher minimum capital requirements for Tunisian insurers. As in Morocco, if a risk-based regime is put in place, asset-related risks could be a source of pressure, in our opinion. We estimate insurers' equity exposure at 20%.

Tunisia's recent events have resulted in accentuated market volatility and likely increased insurers' credit risk. These factors could adversely affect insurers' capital adequacy, given the investment exposure that they carry on their balance sheets. If current conditions persist, we believe there could be a negative impact on the financial strength of local insurers.

**Table 9**

**Tunisia: Capital Adequacy Statistics**

| (TND million) | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|
| Total shareholders' funds | 273 | 291 | 442 | 522 |
| Total invested assets | 1,393 | 1,645 | 2,005 | 2,243 |
| Technical reserves | 1,499 | 1,678 | 1,821 | 2,046 |
| Total gross premiums written | 796 | 872 | 956 | 1,017 |
| Total net premiums written (NPW) | 636 | 699 | 762 | 816 |
| Reinsurance utilization (%) | 20.1 | 19.9 | 20.2 | 19.8 |
| Total shareholders' funds/NPW (%) | 43.0 | 41.6 | 58.0 | 64.0 |
| Total shareholders' funds/total invested assets (%) | 19.6 | 17.7 | 22.1 | 23.3 |
| Total shareholders' funds/technical reserves (%) | 18.2 | 17.3 | 24.3 | 25.5 |

TND--Tunisian dinar. Sources: Standard & Poor's; Tunisian Federation of Insurance Companies (FTUSA).

## Enhanced Risk Management Will Likely Accompany Potential Growth

The steps that Algerian, Moroccan, and Tunisian insurers and regulators have taken to improve the industry landscape in their respective insurance markets will, in our view, usher in good growth in the coming years. Still, the political transition in Tunisia could prompt a pause in its insurance industry's growth in the next year. Concurrently, in our opinion, Maghreb insurers' efforts to improve their risk management practices are likely to gain further momentum as volumes grow and products offered and risks assumed become more diverse. In addition, risk management practices are likely to increasingly come under the spotlight, because the Algerian, Moroccan, and Tunisian insurance industries are contemplating the adoption of risk-adjusted solvency frameworks in the coming years. A move along these lines is likely to lead to healthier growth, and influence insurers' investment strategies while helping to improve their operating performances.

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