



A.M. Best

## Country Risk Profile: Global Summary

May 2009

# Country Risk Profile: Global Summary

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The Insurance Information Source

A.M. Best defines country risk as the risk that country-specific factors could adversely affect the claims paying ability of an insurer. Country risk is factored into all A.M. Best ratings. A.M. Best's country risk methodology, *Assessing Country Risk*, describes the country risk evaluation process and describes how country risk is integrated into Best's ratings. The methodology represents a diversion from A.M. Best's former method of measuring country risk.

On April 8, 2009, in addition to the new country risk methodology, the first set of Country Risk Tiers (CRTs) was released. On that date, implementation of the new methodology commenced. Both are available at [www.ambest.com](http://www.ambest.com). Below, the countries are listed according to their CRTs.

The purpose of this report is to serve as a supplement to the methodology and summarize the output of the A.M. Best Country Risk Model, and identify each of the peer groups grouped by CRT and by region. It therefore also serves as a compilation of the information that can be found in the Country Risk Profiles that have been published on each country evaluated and are available on the A.M. Best website.

In summarizing the model output, this report examines the current population of countries evaluated and identifies the characteristics that are typical to countries in a given tier from the perspective of country risk. This report does not provide analysis beyond the results of the country risk evaluation process. More detailed studies on specific insurance industries or markets are available as Special Reports at [www.ambest.com](http://www.ambest.com).

#### **CRT-1**

Australia  
Austria  
Canada  
Denmark  
Finland  
France

Germany  
Gibraltar\*  
Guernsey\*  
Isle of Man\*  
Luxembourg  
Netherlands

Norway  
Singapore  
Sweden  
Switzerland  
United Kingdom  
United States

#### **CRT-2**

Barbados\*  
Belgium  
Bermuda\*  
British Virgin Islands\*  
Cayman Islands\*  
Hong Kong

Italy  
Ireland  
Japan  
Liechtenstein\*  
Macau

New Zealand  
Slovenia  
South Korea  
Spain  
Taiwan

#### **CRT-3**

Antigua & Barbuda\*  
Bahamas\*  
Bahrain  
China  
Cyprus  
Israel

Kuwait  
Malaysia  
Mexico  
Netherlands Antilles\*  
Oman  
Poland

Qatar  
Saudi Arabia  
South Africa  
Thailand  
Trinidad and Tobago  
United Arab Emirates

	<b><u>CRT-4</u></b>	
Bosnia and Herzegovina	Jamaica	Panama
Brunei Darussalam	Jordan	Philippines
Egypt	Kazakhstan	Russia
India	Mauritius	Tunisia
Indonesia	Morocco	Turkey
	<b><u>CRT-5</u></b>	
Belarus	Kenya	Ukraine
Dominican Republic	Lebanon	Vietnam
Ghana	Nigeria	

\* Denotes Countries to be considered “Special Cases” by A.M. Best. For an explanation of a “special case” and more information on the Country Risk Methodology please see Assessing Country Risk at: <http://www.ambest.com/ratings/countryrisk.pdf>.

The report is broken down into two main parts. The first section discusses economic, political, financial and insurance statistics of countries in a given tier. The second looks at the countries in a regional context.

## **Tier Characteristics**

This section of the report examines the general characteristics typical to a country in a given tier. It is organized to match the 3 broad categories of risk outlined in the country risk methodology. These categories of risk are (1) Economic Risk; (2) Political Risk and (3) Financial System (both non-insurance and insurance) Risk.

As there are only five categories of country risk, significant differences can be seen, on average, from one tier to the next. On average, insurers domiciled or operating in countries classified as CRT-3, CRT-4 or CRT-5, tend to be impacted more by country risk than those insurers domiciled or operating in CRT-1 or CRT-2 countries. However, differentiation between countries in CRT-1 and CRT-2 is necessary as an important line exists between those countries that are relatively risk-free compared to those that are stable and well diversified but have some significant weaknesses.

### **Economic Risk**

Economic risk is the likelihood that fundamental weaknesses in a country’s economy will cause adverse developments for an insurer. A.M. Best’s assessment of economic risk evaluates the state of the domestic economy, government finances and international transactions, as well as prospects for growth and stability.

In deriving economic risk, A.M. Best’s country risk model employs a weighted average of scores derived from dozens of economic variables. The final result categorizes countries’ economic risk into one of five levels of risk, ranging from Very Low to Very High. Below is a summary of the results.

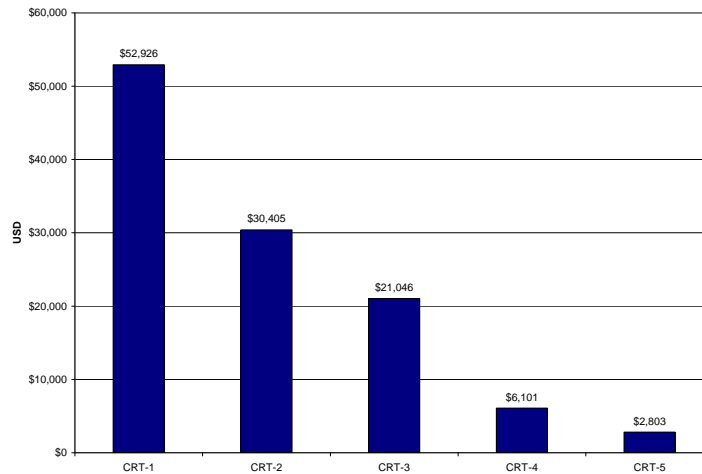
<b>Economic Risk</b>						
Country Risk Tier	Very Low	Low	Moderate	High	Very High	Total
CRT-1	13	5	0	0	0	18
CRT-2	3	11	2	0	0	16
CRT-3	0	6	12	0	0	18
CRT-4	0	1	6	7	1	15
CRT-5	0	0	1	5	2	8
<b>Total</b>	<b>16</b>	<b>23</b>	<b>21</b>	<b>12</b>	<b>3</b>	<b>75</b>

As the above table illustrates, economic risk typically is very low in CRT-1 countries and high in CRT-5 countries. To illustrate the results, Figures 1 and 2 below are average values in each tier of two of the most significant indicators of economic risk; overall wealth and economic size.

### *Wealth*

One of the most telling indicators in A.M. Best's assessment of economic risk is gross domestic product (GDP) per capita. Figure 1 below shows the average GDP per capita in countries in CRT-1 through CRT-5. The numbers are a simple arithmetic average and have not been GDP weighted. In addition special cases have been removed as economic risk is captured differently for these countries and their inclusion in the average would distort the results in an uninformative way.

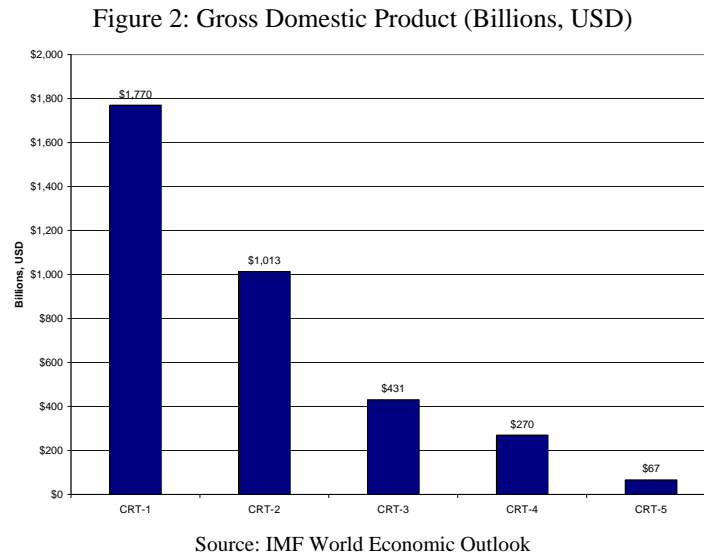
Figure 1: GDP Per Capita



Source: IMF World Economic Outlook

## Size

Figure 2 below shows the average size of an economy (as measured by nominal GDP in US dollars) by Country Risk Tier. Again these are simple averages and special cases have been removed.



Countries in higher tiers [CRT-1 being the highest] are generally (on average) larger and more wealthy than countries in lower tiers [CRT-5 being the lowest]. And while many other indicators are used in the assessment of economic risk, these two, particularly GDP per capita, are highly indicative of the level of risk.

## Political Risk

Political risk is the likelihood that government or bureaucratic inefficiencies, societal tensions, inadequate legal system or international tensions will cause adverse developments for an insurer. Political risk comprises the stability of a government and society, the effectiveness of international diplomatic relationships, the reliability and integrity of the legal system and of the business infrastructure, the efficiency of the government bureaucracy and the appropriateness and effectiveness of the government's economic policies.

As was the case with economic risk, each country's political risk is scored from Very Low to Very High. The following table shows the distribution of these scores across tiers.

<b>Political Risk</b>						
Country Risk Tier	Very Low	Low	Moderate	High	Very High	Total
CRT-1	17	1	0	0	0	18
CRT-2	5	11	0	0	0	16
CRT-3	0	3	14	1	0	18
CRT-4	0	0	4	11	0	15
CRT-5	0	0	0	7	1	8
<b>Total</b>	22	15	18	19	1	75

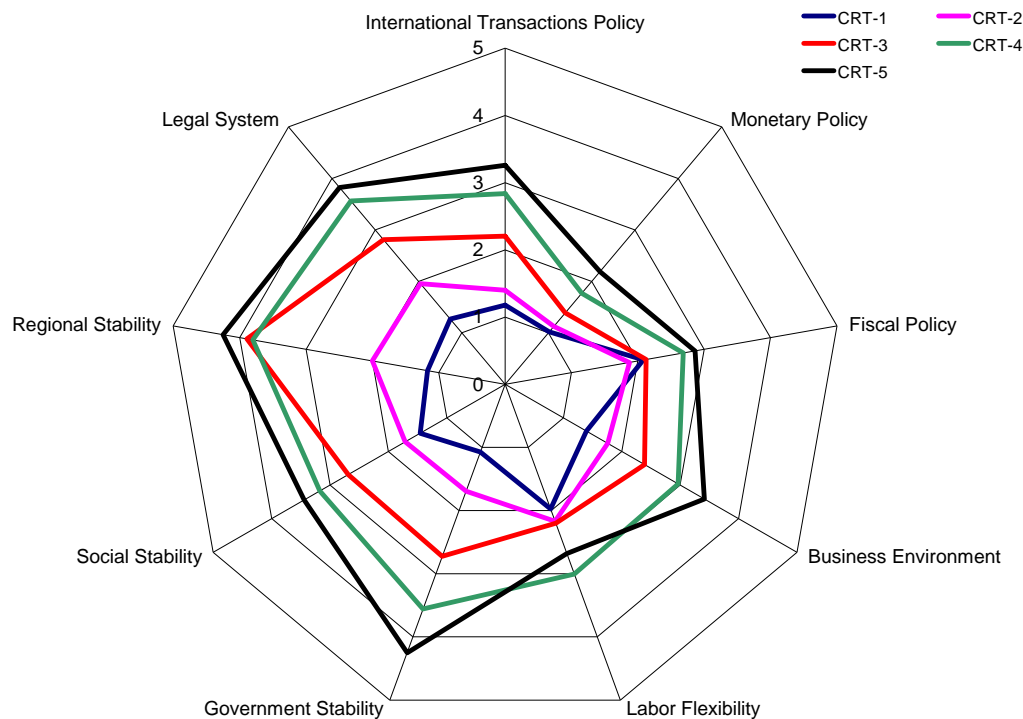
### *Political Risk Summary*

The Political Risk Summary is a radar chart that summarizes portions of the model output on Political Risk and is included on each Country Risk Profile published. It provides the scores for some of the major categories of political risk. The chart displays a score of 1-5 for 9 different aspects of political risk with 1 being the lowest level of risk and 5 being the highest. The points on the chart are defined as follows.

- *International Transactions Policy* – measures the effectiveness of the exchange rate regime and currency management.
- *Monetary Policy* – measures the ability of a country to effectively implement monetary policy.
- *Fiscal Policy* – measures the ability of a country to effectively implement fiscal policy.
- *Business Environment* – measures the overall quality of the business environment, and ease of doing business.
- *Labor Flexibility* – measures the flexibility of the labor market, including a company's ability to hire and fire employees.
- *Government Stability* – measures the degree of stability in the government.
- *Social Stability* – measures the degree of social stability including human development and political rights.
- *Regional Stability* – measures the degree of stability in the region.
- *Legal System* – measures the transparency and level of corruption in a legal system.

Figure 3 below depicts average scores for countries in each Country Risk Tier.

Figure 3: Political Risk Summary across Country Risk Tiers  
Score 1 (best) to 5 (worst)



Source: A.M. Best

### Financial System Risk

Financial system risk (non-insurance) is the risk that financial volatility may erupt due to inadequate reporting standards, weak banking systems or asset markets or poor regulatory structure. Non-insurance financial system risk considers a country's banking system, accounting standards and government finances, and it assesses how vulnerable the financial system is to external or internal volatility. Basel II, World Bank Insolvency Principles and International Accounting Standards all are referenced in the analysis, as are the performances of banks, equity indices and fixed-income securities. Insurance risk is the risk that the insurance industry's levels of development and public awareness; transparency and effectiveness of regulation; reporting standards; and regulatory sophistication will contribute to a volatile financial system and compromise an insurer's ability to pay claims. The assessment is based heavily on the Insurance Core Principles (ICP) of the International Association of Insurance Supervisors (IAIS). A.M. Best employs a sizable subset of the 28 ICPs by organizing them into three categories: 1) government commitment to an open and well-regulated insurance industry, 2) adequacy of supervisory authority and its supporting infrastructure, and 3) insurer accountability.

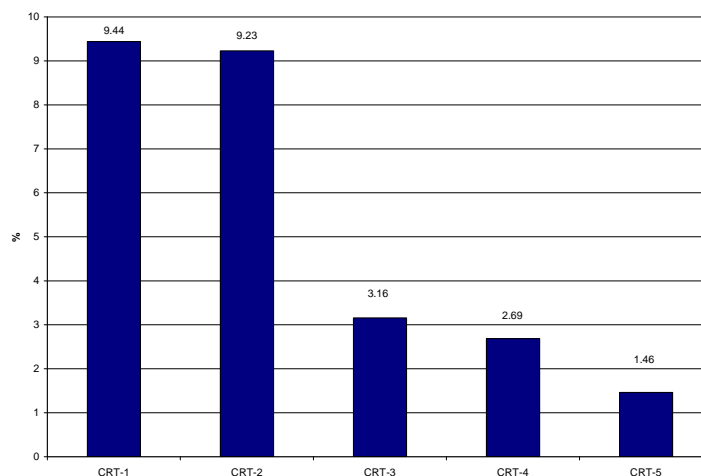


<b>Financial System Risk</b>						
Country Risk Tier	Very Low	Low	Moderate	High	Very High	Total
CRT-1	18	0	0	0	0	18
CRT-2	5	11	0	0	0	16
CRT-3	0	13	5	0	0	18
CRT-4	0	0	4	11	0	15
CRT-5	0	0	0	7	1	8
<b>Total</b>	<b>23</b>	<b>24</b>	<b>9</b>	<b>18</b>	<b>1</b>	<b>75</b>

Again financial system risk is lower in CRT-1, CRT-2 and CRT-3 than it is in CRT-4 and CRT-5. Financial system risk is a combination of non-insurance financial system risk and insurance risk. Factors involved in the assessment of this risk are diverse and include financial market performance, regulatory compliance, banking system soundness and adherence to insurance core principles. As such, there is not one indicator that can simply be averaged across tiers to illustrate financial system risk.

To illustrate the relationship identified between development of a financial system infrastructure and maturity of an insurance industry, it is interesting to illustrate a comparison of the ratio of total premiums written to gross domestic product across tiers (and then regions). This number is not a direct input to the Country Risk Model. This number was calculated by taking the average of total premiums across the tier and dividing by the average GDP in the tier.

Figure 4: Total Premiums/Gross Domestic Product



Source: IMF World Economic Outlook, Swiss Re and A.M. Best

There is clearly a very large drop off in this ratio from CRT-2 to CRT-3.

## Regional Analysis

The second part of this report looks at the same data and information but rather than aggregate it by Country Risk Tier, it will be aggregated by region. For the following analysis each country is placed into one of seven regions as follows.

<b><u>Asia-Pacific</u></b>		
Australia	Japan	Singapore
Brunei Darussalam	Macau	South Korea
China	Malaysia	Taiwan
Hong Kong	New Zealand	Thailand
India	Philippines	Vietnam
Indonesia		
<b><u>Central Asia and Eastern Europe</u></b>		
Belarus	Poland	Slovenia
Bosnia and Herzegovina	Russia	Ukraine
Kazakhstan		
<b><u>Latin America and Caribbean</u></b>		
Antigua and Barbuda*	Cayman Islands*	Netherlands Antilles*
Bahamas*	Dominican Republic	Panama
Barbados*	Jamaica	Trinidad and Tobago
British Virgin Islands*	Mexico	
<b><u>Middle East and Northern Africa</u></b>		
Bahrain	Kuwait	Saudi Arabia
Cyprus	Lebanon	Tunisia
Egypt	Morocco	Turkey
Israel	Oman	United Arab Emirates
Jordan	Qatar	
<b><u>North America</u></b>		
Bermuda*	Canada	United States
<b><u>Sub-Saharan Africa</u></b>		
Ghana	Mauritius	South Africa
Kenya	Nigeria	
<b><u>Western Europe</u></b>		
Austria	Guernsey*	Netherlands
Belgium	Ireland	Norway
Denmark	Isle of Man*	Spain
Finland	Italy	Sweden
France	Liechtenstein*	Switzerland
Germany	Luxembourg	United Kingdom
Gibraltar*		

\* Denotes Countries to be considered “Special Cases” by A.M. Best. For an explanation of a “special case” and more information on the Country Risk Methodology please see Assessing Country Risk at: <http://www.ambest.com/ratings/countryrisk.pdf>.

The following chart describes the distribution of Country Risk Tier assignments across each region.

<b>Country Risk Tier by Region</b>						
Region	CRT-1	CRT-2	CRT-3	CRT-4	CRT-5	Total
Asia-Pacific	2	6	3	4	1	16
Central Asia and Eastern Europe	0	1	1	3	2	7
Latin America and Caribbean	0	3	5	2	1	11
Middle East and Northern Africa	0	0	8	5	1	14
North America	2	1	0	0	0	3
Sub-Saharan Africa	0	0	1	1	3	5
Western Europe	14	5	0	0	0	19
<b>Total</b>	<b>18</b>	<b>16</b>	<b>18</b>	<b>15</b>	<b>8</b>	<b>75</b>

The majority of the CRT-1 countries are located in North America and Western Europe. The other tiers are more evenly distributed across the regions.

The remainder of this section will walk through each region. Each regional section will start with a brief regional comment [originally published in the Country Risk Profiles] and then discuss the performance of the region in the three categories of risk that have previously been identified.

### Asia-Pacific

Asia-Pacific can be broken down into four sub-regions.

#### *Eastern Asia*

- Eastern Asia is home to some of the world's largest and most advanced economies. China and Japan are both in the world's top five countries measured by gross domestic product (GDP).
- In the aftermath of the Southeast Asian financial crisis in the late 1990s, much of the region underwent a restructuring of traditional economic and financial practices to match international best practices in regulation.
- The region as a whole is facing the prospect of economic contraction in 2009 but growth is expected to return in 2010.

#### *Oceania*

- Oceania, whose largest two nations, Australia and New Zealand, make up the vast majority of economic activity, is located in the South Pacific Ocean. Australia and New Zealand have strong political and cultural ties with the United Kingdom.

- Australia and New Zealand have close economic ties with Southeast Asia and in 2009 ASEAN-Australia and New Zealand Free Trade Area (AANZFTA) was established.
- The global economic slowdown is impacting the region as the economies of both Australia and New Zealand are forecasted to contract in 2009.

#### *South Central Asia*

- The region of South Central Asia, comprising the countries south of the Himalayans, is dominated in population and economic size by India.
- Strategic in location as it is bordered by China, Central Asia and the Middle East, this region contains a cross section of cultures and histories and is prone to periods of regional instability, particularly between Pakistan and India.
- Much of South Central Asia had been colonized by the United Kingdom prior to World War II. A strong relationship between the subcontinent and the UK remains.

#### *Southeast Asia*

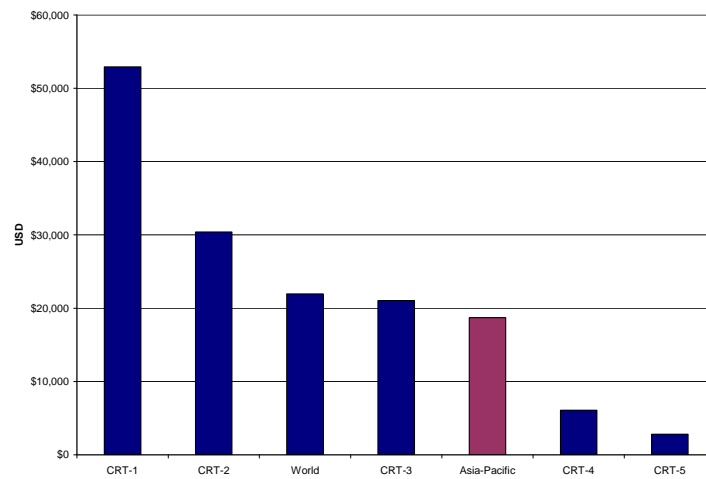
- Southeast Asia is a critical part of the world trading system and while the region's economies remain somewhat dependent on agriculture, manufacturing and services have been the engine for growth.
- 2009-2010 are forecasted to be very difficult times for the region. In fact forecasts suggest these should be the worst years since the Asian financial crisis in 1997-1998. With the economies of their large trading partners slowing significantly (notably U.S. and Europe) demand for exports is plummeting and leading to economic contraction across the region. At the same time as global credit tightens, the amount of foreign direct investment flowing into the economies is drying up.

<b>Asia-Pacific</b>					
<b>Risk Category</b>	<b>Very Low</b>	<b>Low</b>	<b>Moderate</b>	<b>High</b>	<b>Very High</b>
<b>Economic</b>	3	6	5	2	0
<b>Political</b>	4	4	2	6	0
<b>Financial System</b>	5	4	3	3	1

#### *Economic Risk*

The first category of risk to be examined for the Asia-Pacific region is economic risk. Figure 5 below shows the level of per capita GDP in the Asia-Pacific region as it compares to the averages for each tier and the global average. Note, the global average is made up of the 75 countries being analyzed in this report.

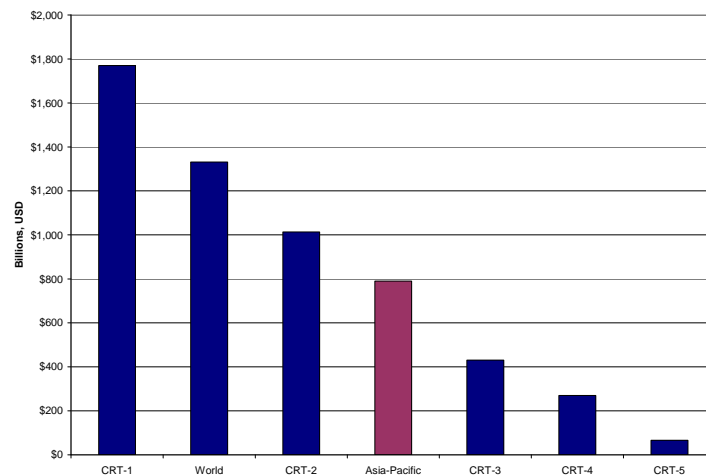
Figure 5: GDP Per Capita



Source: IMF World Economic Outlook

Figure 6 shows gross domestic product for the same set of countries.

Figure 6: Gross Domestic Product (Billions, USD)



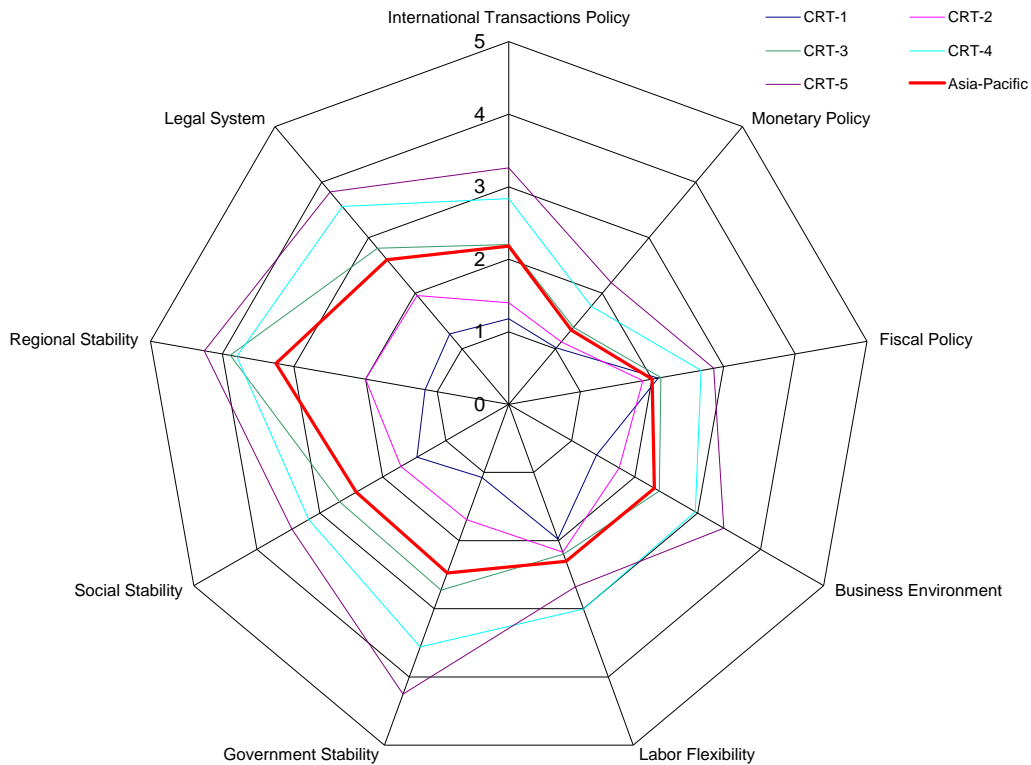
Source: IMF World Economic Outlook

Given the relative even distribution of economic risk scores in the Asia-Pacific region it is not surprising that on average wealth in the region is similar to the world average and CRT-3 and for size, countries on average are larger than CRT-3 countries but smaller than countries in CRT-2.

### *Political Risk*

Figure 7 below compares the components of political risk in Asia-Pacific to the averages for each Country Risk Tier and the global average.

Figure 7: Political Risk Summary – Asia-Pacific  
Score 1 (best) to 5 (worst)



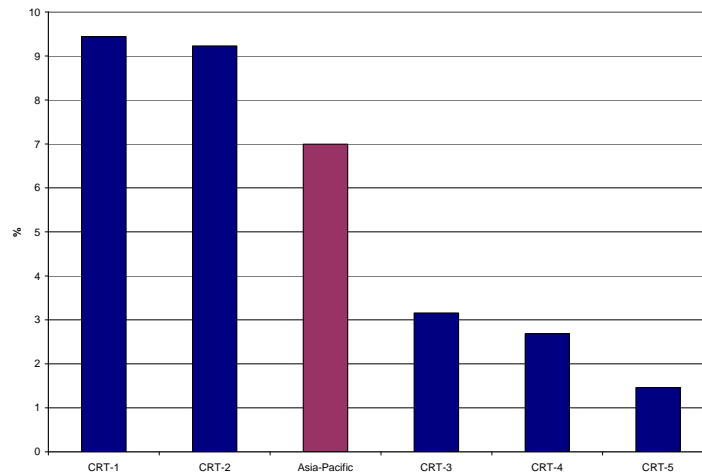
Source: A.M. Best

Again not surprisingly, given the distribution of scores, on average countries in the Asia-Pacific score worse than the average CRT-2 country but better than the average CRT-3 country.

### *Financial System Risk*

The final category of risk to be examined is financial system risk. In Asia-Pacific financial system risk is the most widely distributed category with scores ranging from very high to very low.

Figure 8: Total Premiums/Gross Domestic Product



Source: IMF World Economic Outlook, Swiss Re and A.M. Best

Countries in the region with the most premiums written as a percent of GDP include Hong Kong, South Korea and Taiwan while Vietnam, Brunei and The Philippines are among the lowest.

### Central Asia and Eastern Europe

This region is made up of two sub-regions, Central Asia and Eastern Europe.

#### *Central Asia*

- The Central Asian countries surrounding the Caspian Sea, with the exception of Iran, are all at various stages of transition since the collapse of the Union of Soviet and Socialist Republics (U.S.S.R.).
- The transition process had been further complicated by the presence of major petroleum and natural gas resources, the politics surrounding the export of those resources, and continuing historical and ethnic tensions.
- Oil exporters and those that financed domestic lending with foreign capital are under significant financial strain in this region in 2008 and 2009, and global forecasts have been downgraded to suggest economic contraction across the region.

#### *Eastern Europe*

- Eastern European countries are all at various stages of transition since the collapse of the Union of Soviet and Socialist Republics (U.S.S.R.). For most, the transition process involved the adoption of entirely new regulatory, legal and economic philosophies while combating cultural and / or historical tensions.
- All classified as “emerging market” countries, some have managed to achieve a great deal of economic stability and political power, particularly those that have secured membership in the European Union (EU) and some, even the euro zone.
- Eastern Europe shows a great deal of potential and is a favorite region for foreign investors from developed nations.

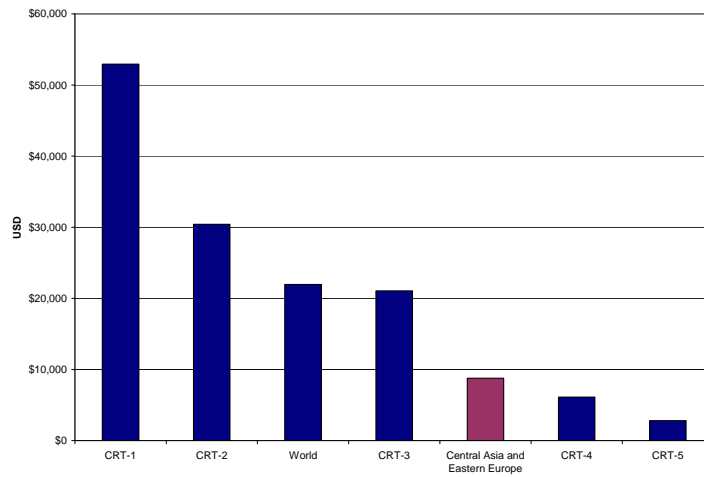
### Central Asia and Eastern Europe

Risk Category	Very Low	Low	Moderate	High	Very High
Economic	0	1	4	2	0
Political	0	1	1	5	0
Financial System	0	2	0	3	2

#### *Economic Risk*

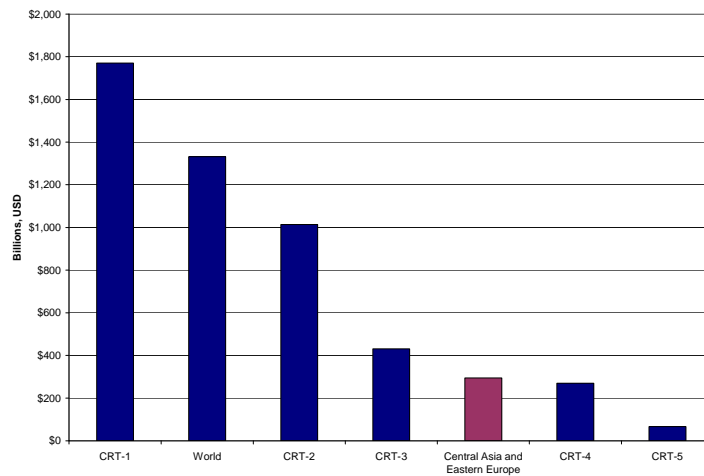
Figures 9 and 10 illustrate the average wealth and size of countries in this region.

Figure 9: GDP Per Capita



Source: IMF World Economic Outlook

Figure 10: Gross Domestic Product (Billions, USD)



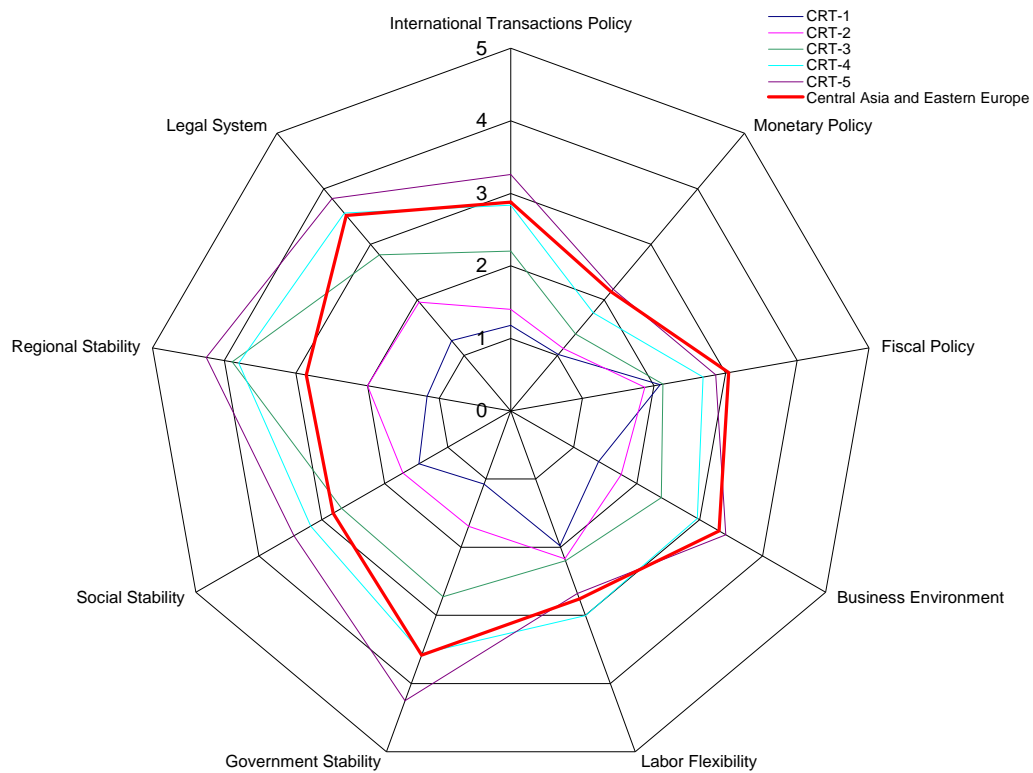
Source: IMF World Economic Outlook

The graphs show that on average countries are between CRT-3 and CRT-4 in terms of wealth and size.



## Political Risk

Figure 11: Political Risk Summary – Central Asia and Eastern Europe  
Score 1 (best) to 5 (worst)

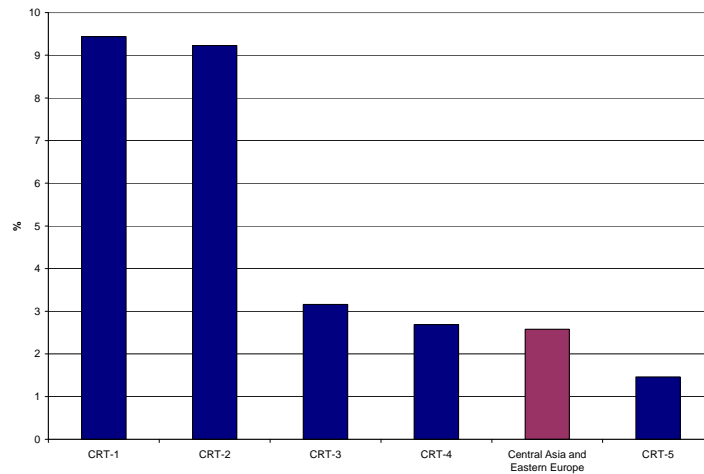


Source: A.M. Best

Again countries in the region score between CRT-3 and CRT-4 on average with particular weakness in fiscal policy efficiency.

## Financial System Risk

Figure 12: Total Premiums/Gross Domestic Product



Source: IMF World Economic Outlook, Swiss Re and A.M. Best

Belarus, Bosnia and Herzegovina and Kazakhstan have the lowest ratio in the region.

### Latin America and Caribbean

This region combines Latin America and the Caribbean sub-regions.

#### *Latin America*

- The entire region is feeling the weight of the global economic decline as reliance on exports to developed countries – particularly the United States – and reliance on commodity industries and tourism will result in growth decelerations if not economic contractions in 2009. Weathering the storm will depend greatly on sound government policies and institutions.
- Forecasts for growth in all of Latin America are being revised downward – in many cases predicting a sharp region-wide contraction.
- The Latin American insurance industry is dominated by Mexico and Brazil, who represent 63% of premiums written in the region.

#### *Caribbean*

- The countries of the Caribbean vary in cultural origin, economic foundation and population affluence. However, in all cases, their long-term growth and stability is highly dependent upon their larger regional neighbors.
- As much of the Caribbean relies upon tourism revenues from nationals of developed countries, particularly the United States, economic growth is suffering in 2009.
- The Caribbean financial services sectors will be affected by the current global financial crisis. The exact impact is yet to be determined as the trend of nationalizations and consolidations in finance companies and the collapsing of hedge funds continues.

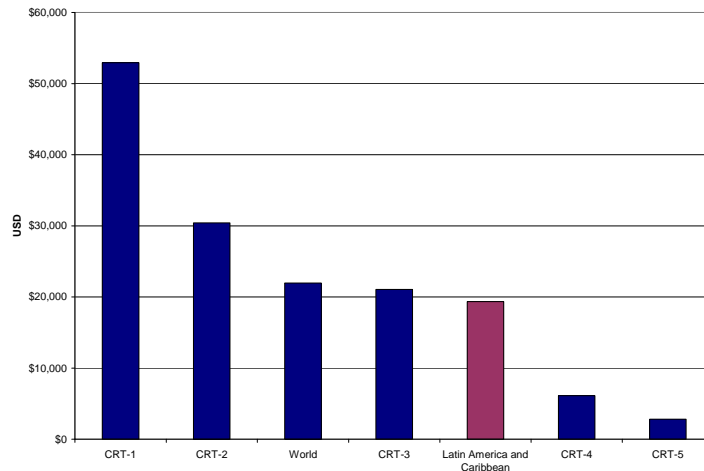
### Latin America and Caribbean

Risk Category	Very Low	Low	Moderate	High	Very High
Economic	0	4	5	1	1
Political	0	6	4	1	0
Financial System	0	6	2	2	1

#### *Economic Risk*

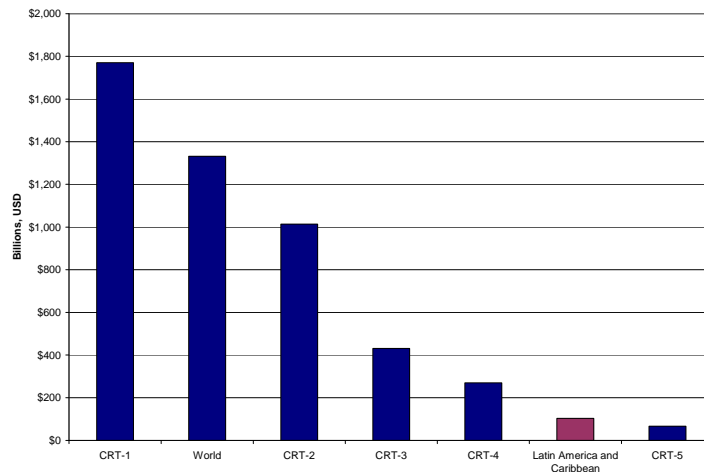
Figures 13 and 14 illustrate the average wealth and size of countries in this region. Note that for the first time in the figures on GDP Per Capita and GDP the special cases in the Caribbean are going to be included. This is because they make up a very large part of the region and are representative of the region.

Figure 13: GDP Per Capita



Source: IMF World Economic Outlook

Figure 14: Gross Domestic Product (Billions, USD)

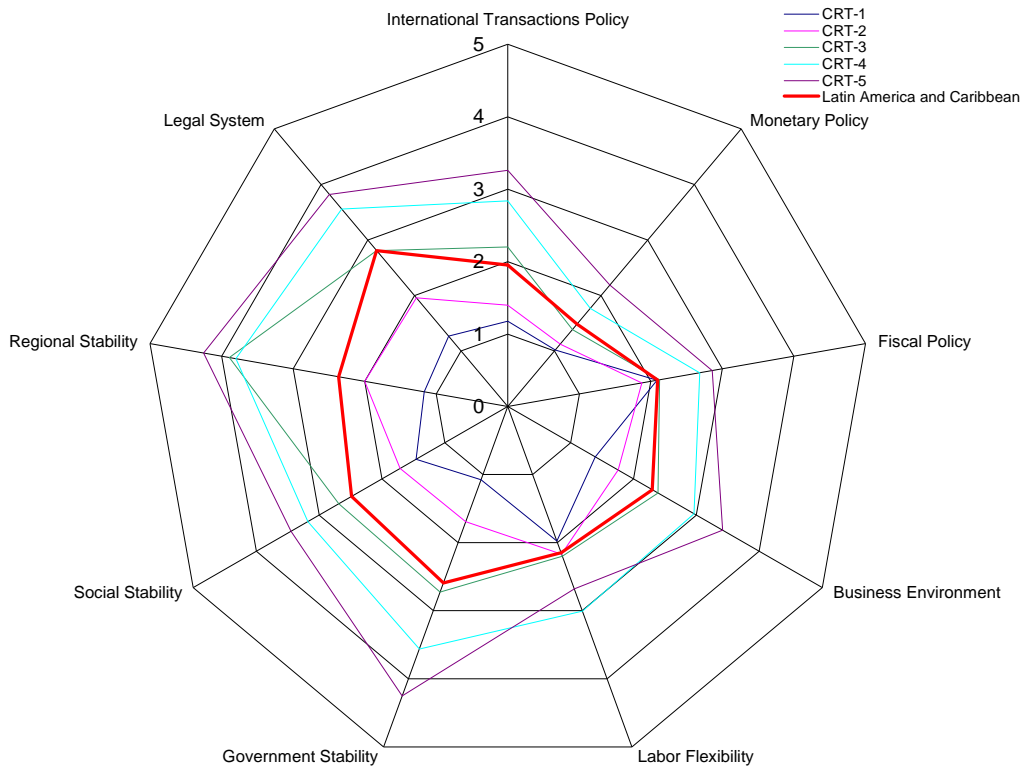


Source: IMF World Economic Outlook

In terms of wealth the Latin America and Caribbean region is similar to CRT-3 on average, while in terms of size they are most similar to CRT-5. Many of the islands of the Caribbean are among the smallest countries assigned Country Risk Tiers.

### *Political Risk*

Figure 15: Political Risk Summary – Latin America and Caribbean  
Score 1 (best) to 5 (worst)

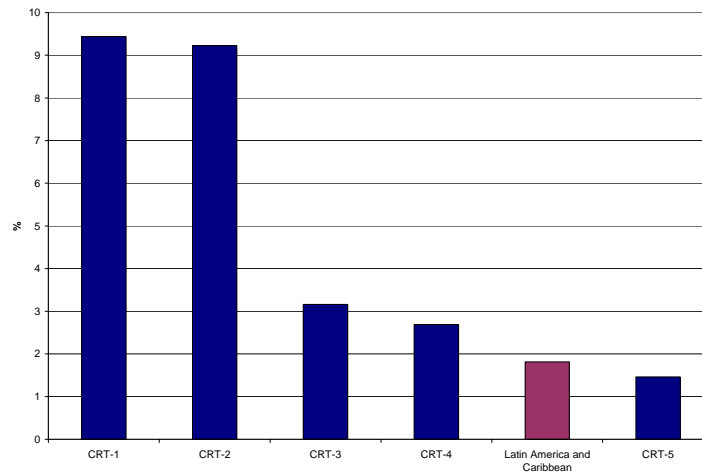


Source: A.M. Best

Political risk scores, on average, between CRT-2 and CRT-3.

## Financial System Risk

Figure 16: Total Premiums/Gross Domestic Product



Source: IMF World Economic Outlook, Swiss Re and A.M. Best

### Middle East and Northern Africa

- The Middle East & North Africa region includes several wealthy oil producing nations and is characterized by regional instability and periods of regional violence.
- After more than five years of rapid expansion, driven primarily by a boom in oil prices, the outlook for the Middle East & North Africa region has been becoming bleaker over the past several months.
- With the World Bank forecasting oil prices to remain below \$50 a barrel for sometime, 2009 will be a challenging year for the region.
- In addition to falling oil prices, the global economic slowdown has impacted the region through reduced tourism and tightening credit conditions.

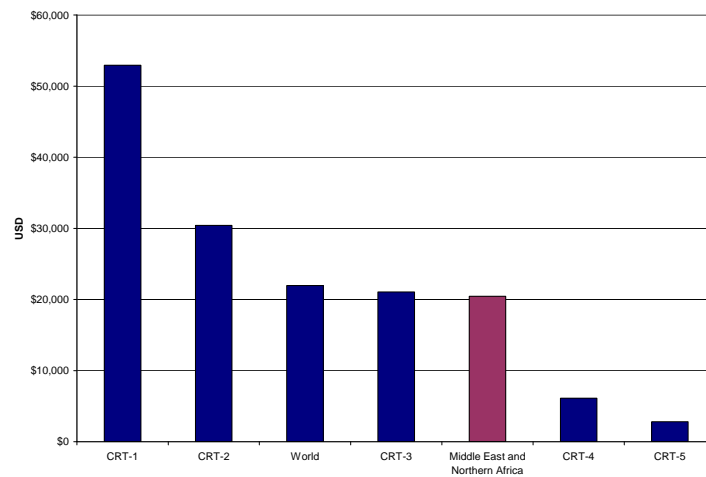
#### **Middle East and Northern Africa**

Risk Category	Very Low	Low	Moderate	High	Very High
Economic	0	4	5	5	0
Political	0	1	8	5	0
Financial System	0	7	1	5	1

## Economic Risk

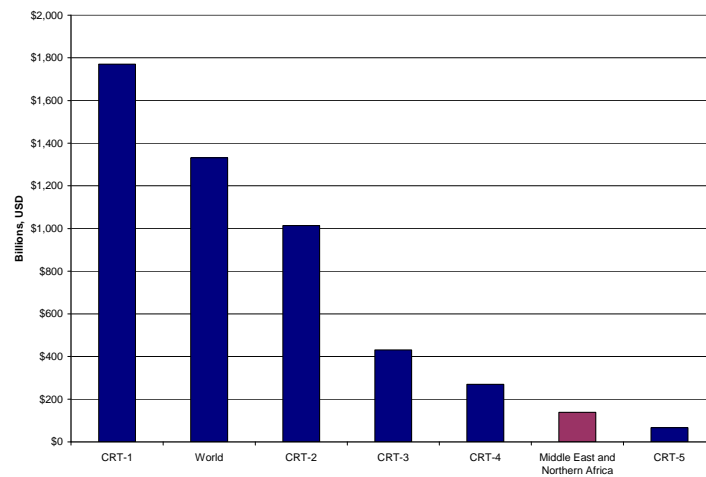
Figures 17 and 18 illustrate the average wealth and size of countries in this region.

Figure 17: GDP Per Capita



Source: IMF World Economic Outlook

Figure 18: Gross Domestic Product (Billions, USD)

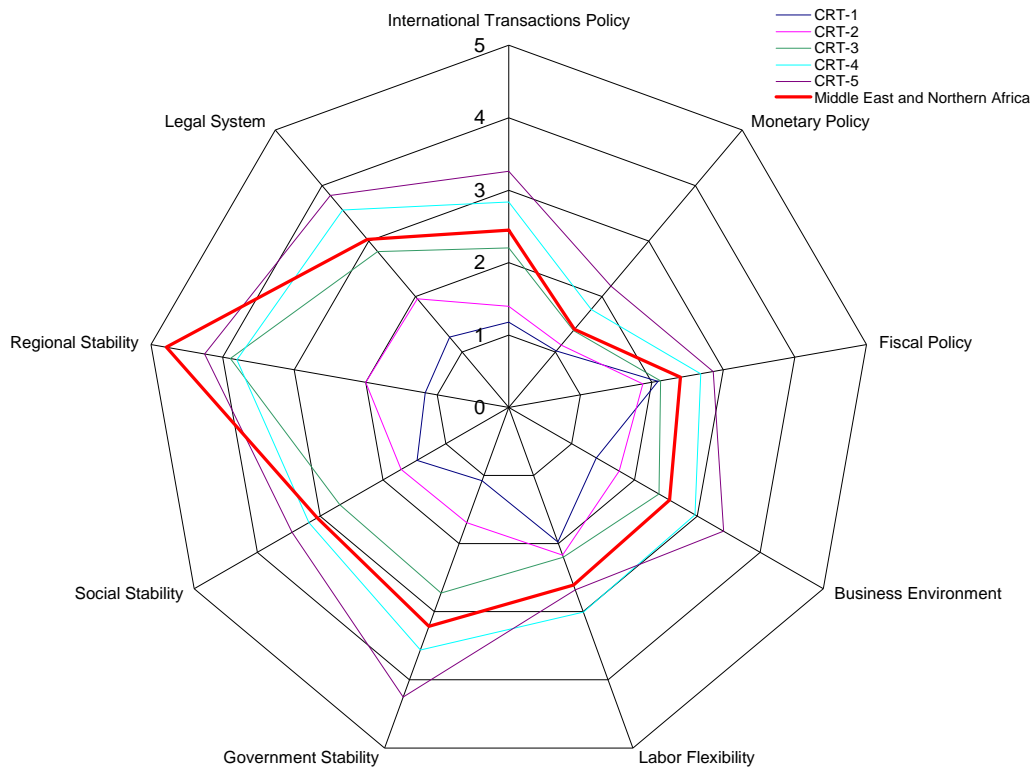


Source: IMF World Economic Outlook

The above figures show that on average countries in the Middle East and Northern Africa region are relatively wealthy and small. The oil producing nations of the Middle East have a higher GDP per capita than the other countries in the region. The average GDP per capita for the Gulf Cooperation Council (GCC), Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates is approximately USD 35,000, in between the average for CRT-1 and CRT-2.

## Political Risk

Figure 19: Political Risk Summary – Middle East and Northern Africa  
Score 1 (best) to 5 (worst)

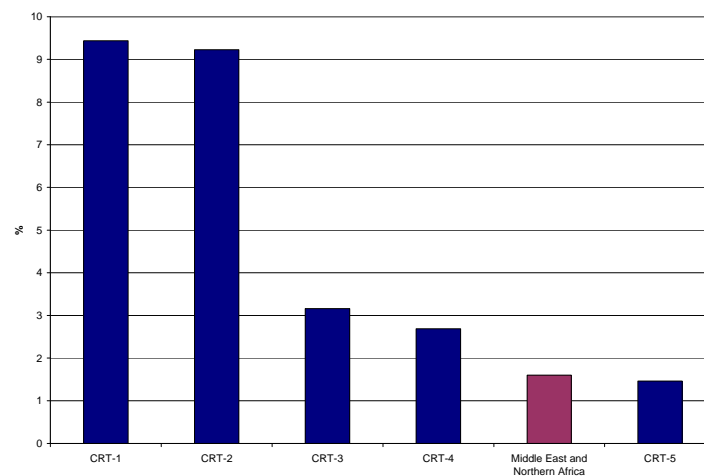


Source: A.M. Best

Regional stability is the biggest challenge to the political risk score in this region.

## Financial System Risk

Figure 20: Total Premiums/Gross Domestic Product



Source: IMF World Economic Outlook, Swiss Re and A.M. Best

Kuwait, Qatar, Saudi Arabia and Egypt all have particularly low premiums as a percent of GDP.

### North America

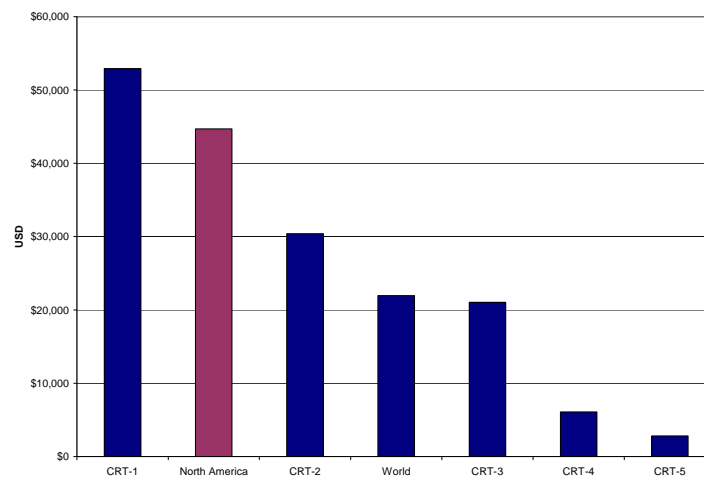
- The North America region is dominated by the United States of America which accounts for USD 14 trillion of the total USD 16 trillion in regional economic activity.
- In 2007, the US housing market, which had been a driving force of the economy, ceased its prolonged upsurge. Simultaneously, several major US commercial banks, investment banks, insurers and mortgage companies have suffered significant financial loss, primarily related to subprime or other high risk loans. The ripple effect has spread through the US financial system and has developed into a global economic slowdown.

North America					
Risk Category	Very Low	Low	Moderate	High	Very High
Economic	1	2	0	0	0
Political	3	0	0	0	0
Financial System	3	0	0	0	0

### *Economic Risk*

Figures 21 and 22 illustrate the average wealth and size of countries in this region.

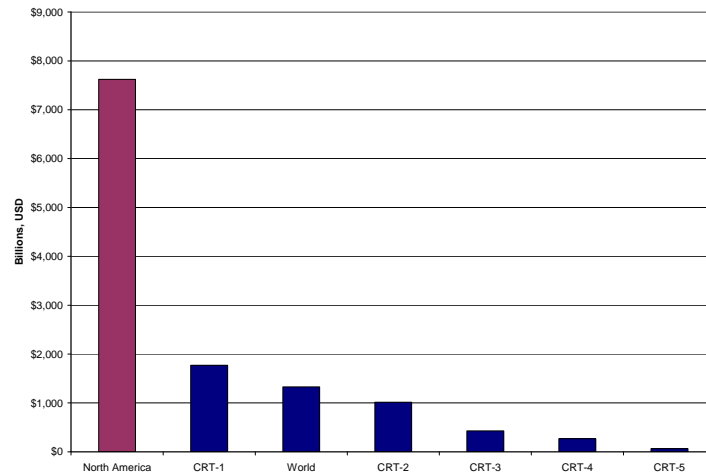
Figure 21: GDP Per Capita



Source: IMF World Economic Outlook



Figure 22: Gross Domestic Product (Billions, USD)

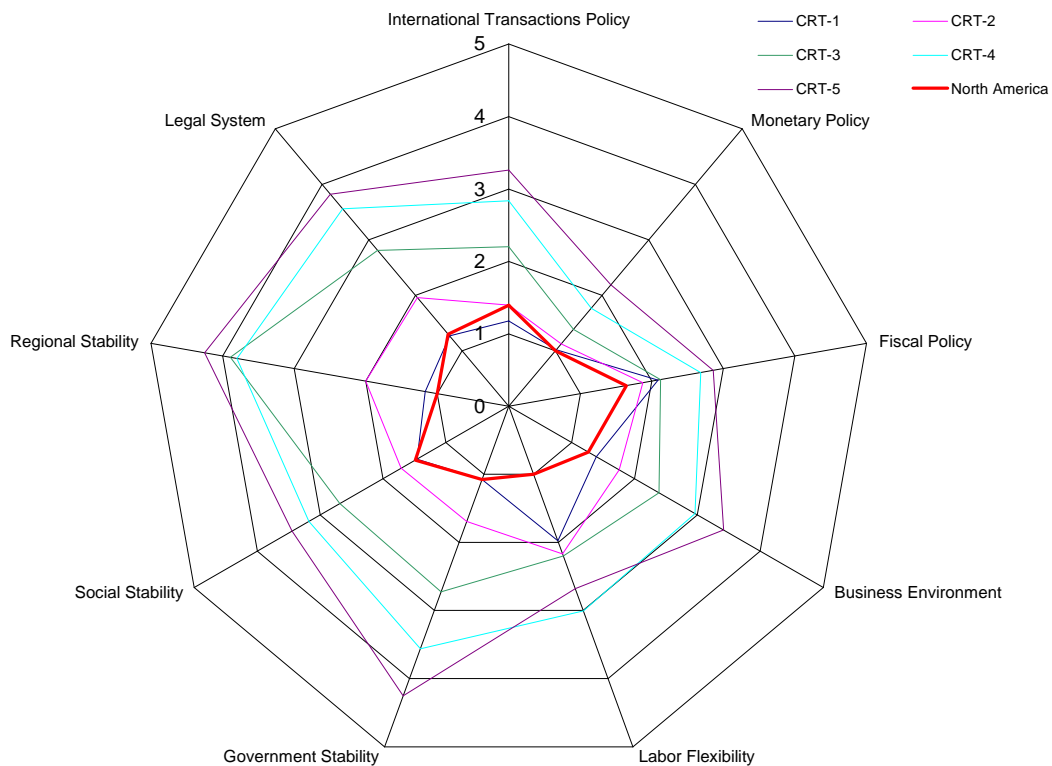


Source: IMF World Economic Outlook

The North America region in this analysis is just an average of Canada and the United States therefore it is large and wealthy.

### Political Risk

Figure 23: Political Risk Summary – North America  
Score 1 (best) to 5 (worst)

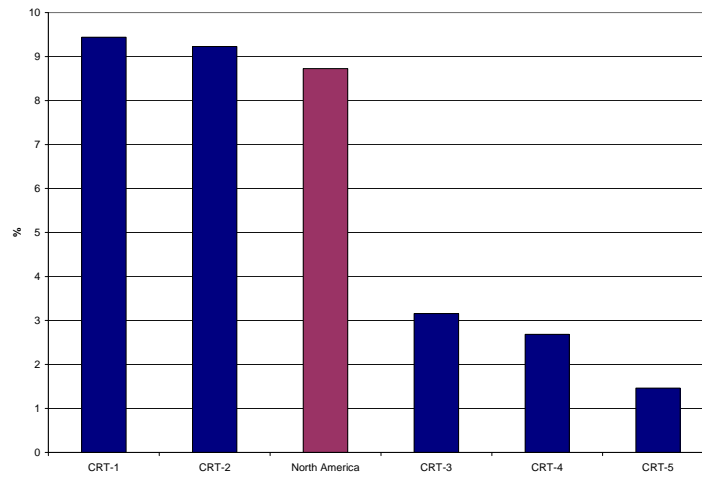


Source: A.M. Best

The region (average of the U.S. and Canada) scores well in political risk.

## Financial System Risk

Figure 24: Total Premiums/Gross Domestic Product



Source: IMF World Economic Outlook, Swiss Re and A.M. Best

The United States alone represents approximately 30% of premiums written in the world.

### Sub-Saharan Africa

- The region of Sub-Saharan Africa contains a vast array of climates, natural resources and historical and cultural foundations.
- The region as a whole is plagued with violence, crime, malnutrition and corruption, with few of the countries enjoying economic prosperity. The region is home to some of the most economically-challenged countries in the world.
- The insurance regulatory environments through most of Sub-Saharan Africa are in a stage of development, working toward compliance with international standards.

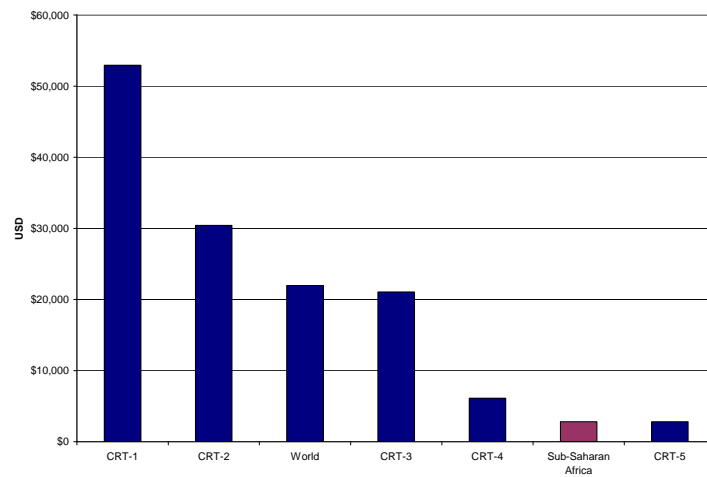
#### **Sub-Saharan Africa**

Risk Category	Very Low	Low	Moderate	High	Very High
Economic	0	0	1	2	2
Political	0	0	2	2	1
Financial System	0	1	1	0	3

### *Economic Risk*

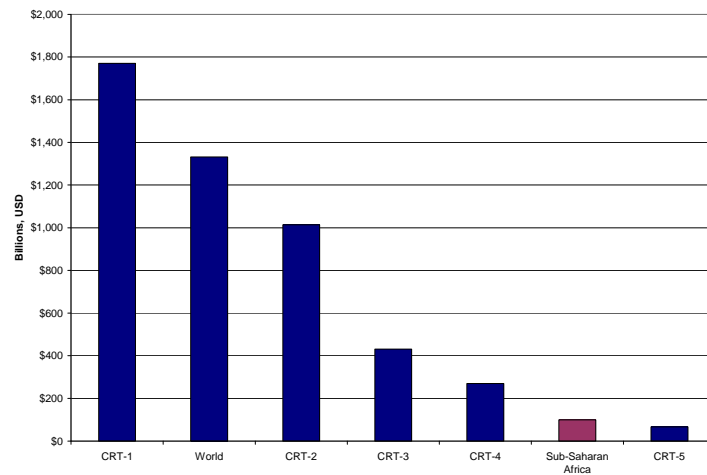
Figures 25 and 26 illustrate the average wealth and size of countries in this region.

Figure 25: GDP Per Capita



Source: IMF World Economic Outlook

Figure 26: Gross Domestic Product (Billions, USD)

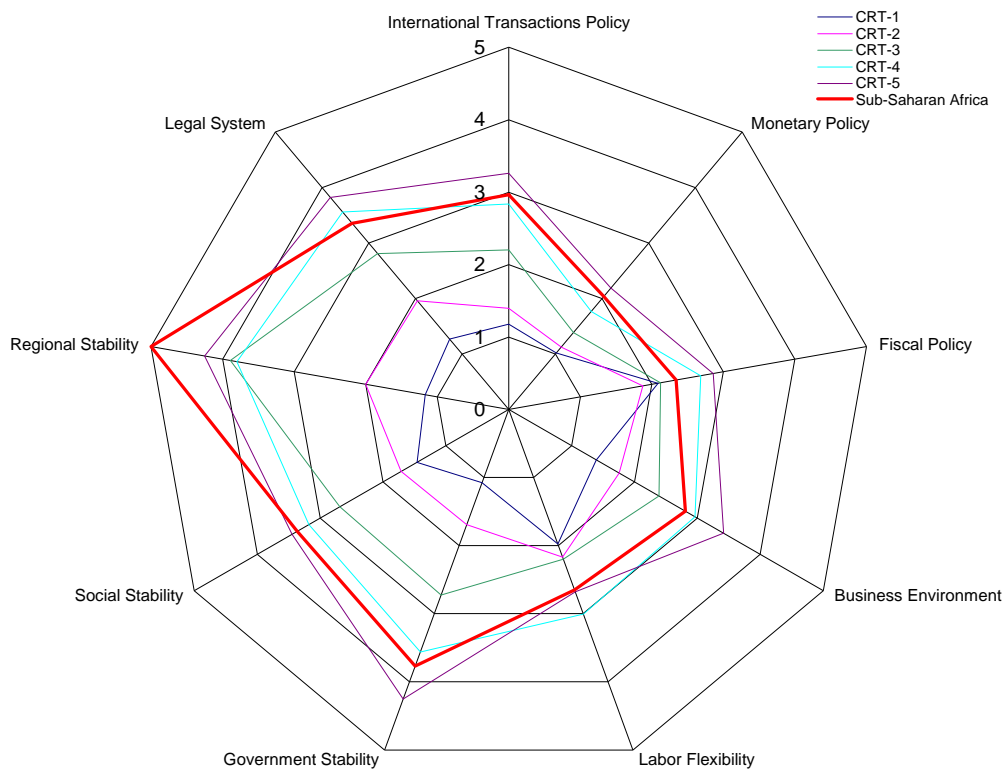


Source: IMF World Economic Outlook

The Sub-Saharan region consists largely of small, poor countries. At least in terms of the above two metrics, it compares similarly to CRT-5.

## Political Risk

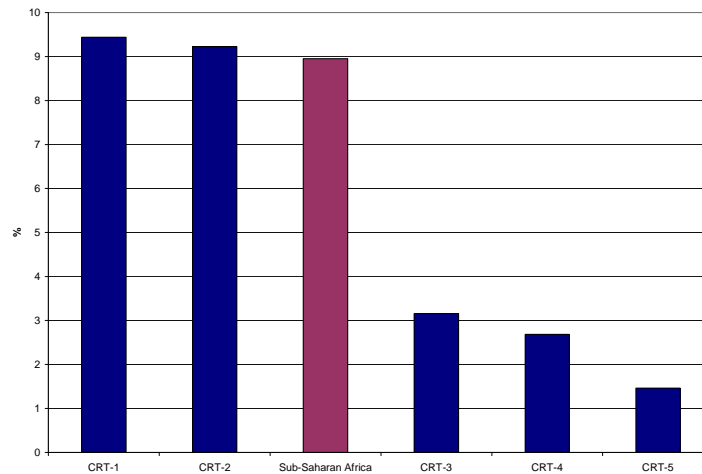
Figure 27: Political Risk Summary – Sub-Saharan Africa  
Score 1 (best) to 5 (worst)



Source: A.M. Best

The Sub-Saharan Africa region scores relatively poorly in terms of political risk (on average between CRT-4 and CRT-5). The region performs particularly poorly in terms of regional stability.

Figure 28: Total Premiums/Gross Domestic Product



Source: IMF World Economic Outlook, Swiss Re and A.M. Best

South Africa, which has the highest premiums written in Africa, distorts the average of this ratio in the region. South Africa has a very high ratio of premiums to GDP (over 15%) which inflates the average that also contains the very low ratios (less than 1%) in Ghana and Nigeria. Thus, while the average for the region appears high this can be misleading in that it is not representative for the majority of the countries in the region. All of Africa comprises less than 2% of global premiums.

### Western Europe

- Western Europe is a highly developed and affluent region. The European Union (EU) is an economic and political union of 27 countries that accounts for 30% of world gross domestic product (GDP). The EU is facilitating a single European market with standardized regulatory systems and free movement of people, goods, services and capital. The Euro zone is made up of the 16 EU members that have adopted the Euro as their currency.
- Most, if not all, of Western Europe is experiencing a severe economic slowdown and many countries are, or soon will be, in an official recession. While the European Central Bank cuts interest rates to spur demand, declining demand for exports and tightening credit conditions will dramatically slow the economy.

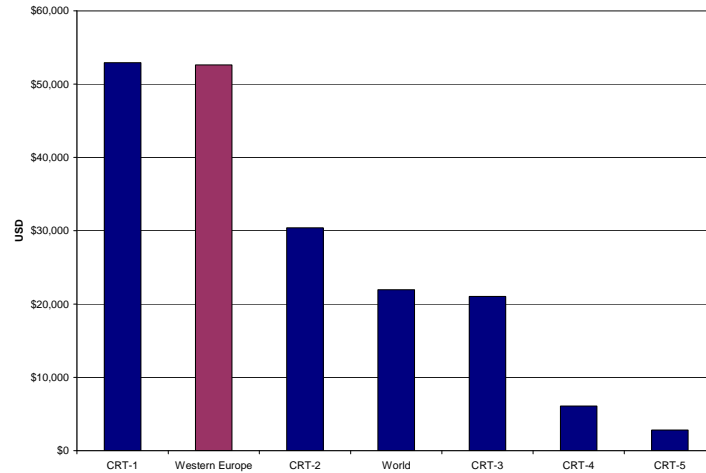
### Western Europe

Risk Category	Very Low	Low	Moderate	High	Very High
Economic	11	7	1	0	0
Political	15	4	0	0	0
Financial System	16	3	0	0	0

## Economic Risk

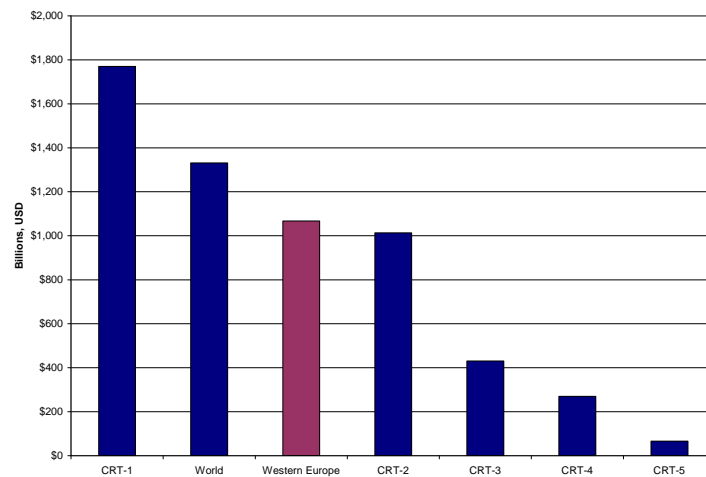
Figures 29 and 30 illustrate the average wealth and size of countries in this region.

Figure 29: GDP Per Capita



Source: IMF World Economic Outlook

Figure 30: Gross Domestic Product (Billions, USD)

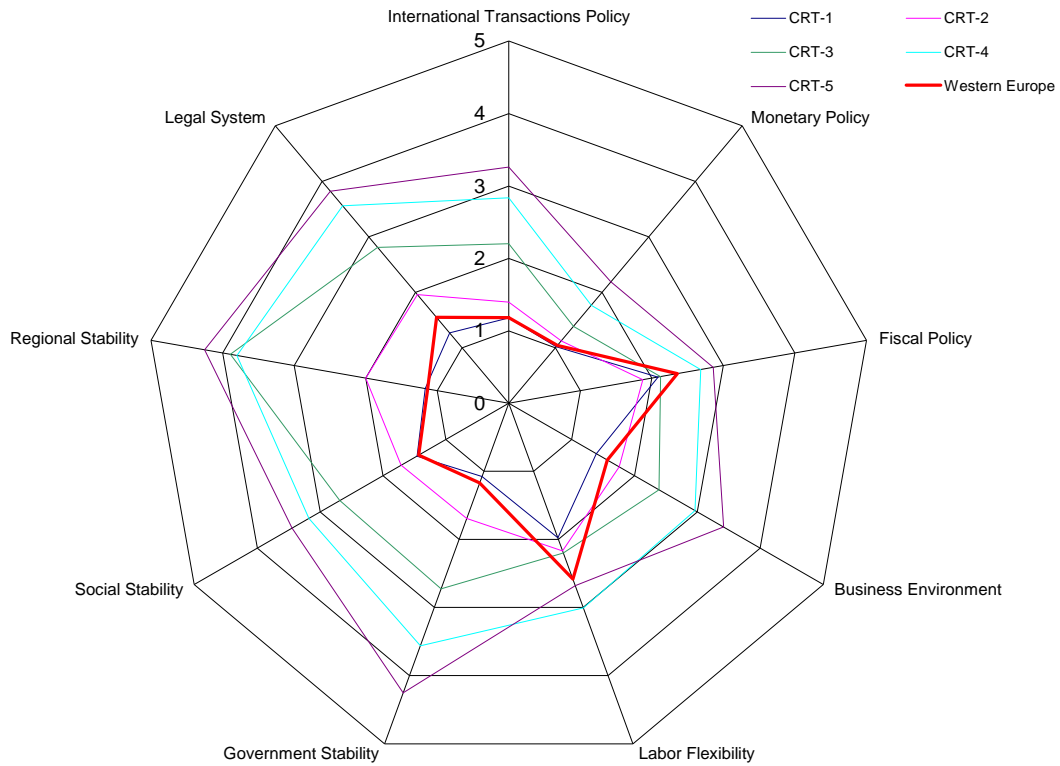


Source: IMF World Economic Outlook

On average the economies of Western Europe are large and wealthy.

## Political Risk

Figure 31: Political Risk Summary – Western Europe  
Score 1 (best) to 5 (worst)

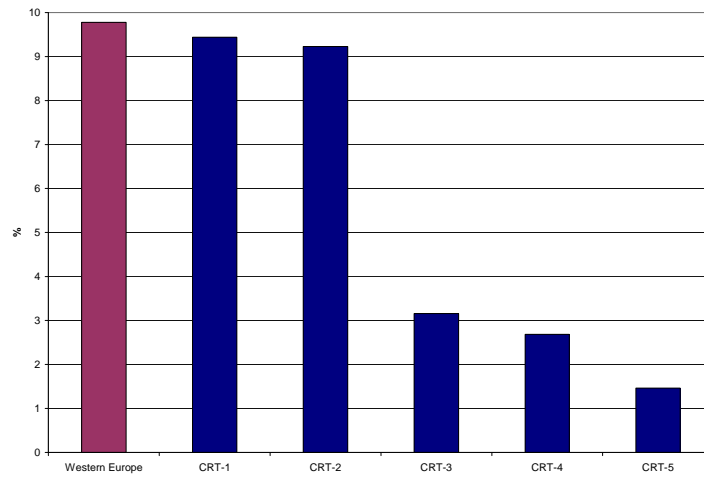


Source: A.M. Best

While overall political risk scores in the region are low, there is some weakness in terms of labor flexibility and fiscal policy.

## Financial System Risk

Figure 32: Total Premiums/Gross Domestic Product



Source: IMF World Economic Outlook, Swiss Re and A.M. Best

These markets are mature. Moreover, these countries are the base of several of the world's leading reinsurers. While nearly all the countries in the region have relatively high ratios of premiums to GDP, Luxembourg, Switzerland and Belgium are three of the highest.

## Conclusion

This report examined the current population of countries assigned Country Risk Tiers by A.M. Best and identified the characteristics that are typical to countries in a given tier (and region). Though the annual cycle for reviewing country risk ends every August, at which time an updated tiers list will be released, all tier assignments are subject to change at any time. More information is available at:

<http://www3.ambest.com/ratings/cr/crisk.aspx?l=1&Menu=Country+Risk>.