

# BEST'S GUIDE TO COUNTRY RISK TIERS

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 evaluated and factored into all of Best's Credit Ratings. Countries are placed into one of five tiers, ranging from "CRT-1" (Country Risk Tier 1) for countries with a stable environment with the least amount of risk, to "CRT-5" (Country Risk Tier 5) for countries that pose the most risk and, therefore, the greatest challenge to an insurer's financial stability, strength, and performance.

A.M. Best's Country Risk Tiers are not credit ratings and are not directly comparable to a sovereign debt rating, which evaluates the ability and willingness of a government to service its debt obligations.

## Country Risk Tiers

Country Risk Tier	Definition
CRT-1	Predictable and transparent legal environment, legal system, and business infrastructure; sophisticated financial system regulation with deep capital markets; mature insurance industry framework
CRT-2	Predictable and transparent legal environment, legal system, and business infrastructure; sufficient financial system regulation; mature insurance industry framework
CRT-3	Developing legal environment, legal system, and business environment with developing capital markets; developing insurance regulatory structure
CRT-4	Relatively unpredictable and nontransparent political, legal, and business environment, with underdeveloped capital markets; partially to fully inadequate regulatory structure
CRT-5	Unpredictable and opaque political, legal, and business environment, with limited or nonexistent capital markets; low human development and social instability; nascent insurance industry

## Country Risk Reports

A.M. Best Country Risk Reports are designed to provide a brief, high-level explanation of some of the key factors that determine a country's Country Risk Tier assignment. It is not intended to summarize A.M. Best's opinion on any particular insurance market or the prospects for that market.

## Categories of Risk

Country Risk Reports provide "scores" for three categories of risk for each country: (1) Very Low; (2) Low; (3) Moderate; (4) High and (5) Very High.

Category of Risk	Definition
Economic Risk	Economic risk is the risk 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.
Political Risk	Political risk is the risk 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 the 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.
Financial System Risk	Financial system risk (which includes both insurance and non-insurance financial system risk) is the risk that financial volatility may erupt because of inadequate reporting standards, a weak banking system or asset markets, or poor regulatory structure. It also takes into account the risk that the level of the insurance industry's development and public awareness, transparent and effective regulation and reporting standards, and a sophisticated regulatory body will contribute to a volatile financial system and compromise an insurer's ability to pay claims.

## Political Risk Summary

To provide additional detail on the political risk in a given domicile, the Country Risk Reports include the Political Risk Summary. The Political Risk Summary is a radar chart that shows scores for nine different aspects of political risk, on a scale of 1 to 5, with 1 being the least amount of risk and 5 being the highest amount of risk.

Category	Definition
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 companies' ability to hire and fire employees
Government Stability	Measures the degree of stability in a 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 the legal system

## Country Risk Tier Disclosure

A Country Risk Tier (CRT) is not a credit rating; rather, it represents a component of A.M. Best's credit rating methodology that is applied to all insurers. A CRT is not a recommendation to purchase, hold, or terminate any security, insurance policy, contract, or any other financial obligation issued by a government, insurer, or other rated issuer, nor does it address the suitability of any particular policy, contract, or other financial obligation for a specific purpose or purchaser.

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