BEST'S COUNTRY RISK REPORT

Chile
CRT-2

August 22, 2018

Region: Latin America

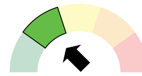
Country Risk Criteria Procedures

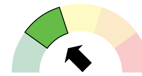
Guide to Best's Country Risk Tiers

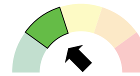
- The Country Risk Tier (CRT) reflects A.M. Best's assessment of three categories of risk: Economic, Political, and Financial System Risk.
- Chile, a CRT-2 country, has low levels of economic, political, and financial system risk. Because its economy is reliant on the mining industry, it is vulnerable to ebbs and flows in global demand and price fluctuations. Economic growth is projected to accelerate to 3.4% in 2018, driven by increased consumption and investment. Inflation is expected to increase slightly. Monetary policy is expected to remain accommodative to growth.
- The map depicts the countries A.M. Best evaluates in Latin America and the Caribbean. The majority of Latin American countries are CRT-4 or CRT-5, with the exceptions of Chile, Mexico, and Peru.

Vital Statistics 2017		
Nominal GDP	USD bn	277.04
Population	mil	18.4
GDP Per Capita	USD	15,070
Real GDP Growth	%	1.5
Inflation Rate	%	2.2
United Nations Estimates		
Literacy Rate	%	97.5
Urbanization	%	89.9
Dependency Ratio	%	45.5
Life Expectancy	Years	78.9
Median Age	Years	34.4
Insurance Statistics		
Insurance Regulator	The Financial Markets Commission	
Premiums Written (Life)	USD mil	8,394
Premiums Written (Non-Life)	USD mil	4,900
Premiums Growth (2016 - 2017)	%	1.2
Regional Comparison		
	Country Risk Tier	
Chile	CRT-2	
Argentina	CRT-5	
Brazil	CRT-4	
Colombia	CRT-4	
Peru	CRT-3	
Venezuela	CRT-5	

Source: IMF, UN, Swiss Re, Axco and A.M. Best


Economic Risk


Political Risk

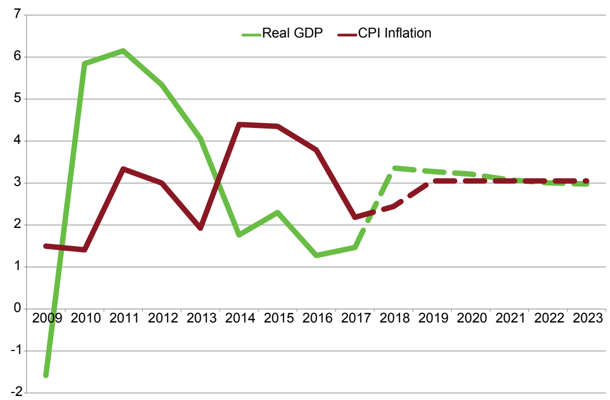

Financial System Risk

- **Country Risk Tier 1** (CRT-1) Very Low Level of Country Risk
- **Country Risk Tier 2** (CRT-2) Low Level of Country Risk
- **Country Risk Tier 3** (CRT-3) Moderate Level of Country Risk
- **Country Risk Tier 4** (CRT-4) High Level of Country Risk
- **Country Risk Tier 5** (CRT-5) Very High Level of Country Risk

Regional Summary: Latin America

- Growth in the region is likely to continue in 2018 due to expanding global growth, rebounding commodity prices, and strengthening domestic demand. However, risks are tilted to the downside owing to rising domestic political uncertainty, currency volatility, growing trade protectionism, rising fiscal deficits, and negative spillover effects from international financial markets.
- Conditions are largely positive, but several countries in the region are experiencing heightened risk. Years of unsustainable social programs, higher spending, and growing corruption have led to significant challenges for Venezuela, as well as Brazil and Argentina, albeit to a lesser extent.
- So far this year, there have been several presidential elections in Colombia, Mexico, and Venezuela; Brazil's is scheduled for later this year. The election environment is complex owing to mounting social conflicts, corruptions scandals, and policy uncertainty. According to the IMF's 2017 estimates, four countries are responsible for the largest proportion of the region's economic output: Brazil at USD2,055 billion, Mexico at USD1,149 billion, Colombia at USD309 billion, and Venezuela at USD210 billion.

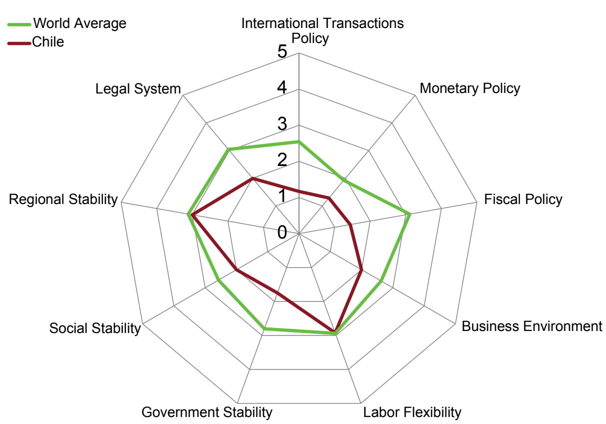
Economic Growth (%)



Source: IMF World Economic Outlook and A.M. Best

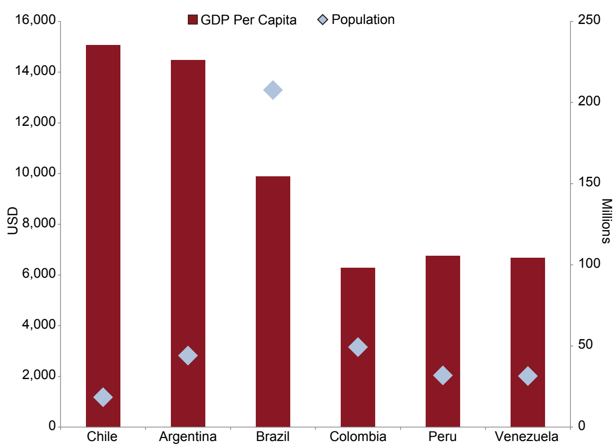
Political Risk Summary

Score 1 (best) to 5 (worst)



Source: A.M. Best

GDP Per Capita and Population



Source: IMF and A.M. Best

Economic Risk: Low

- Chile is endowed with abundant natural resources, making mining the leading sector. Other significant sectors include forestry and fishing.
- The country benefits from a highly developed infrastructure, transparent and consolidated institutions, and a well-educated population. The workforce is relatively stable, and the government has a business-friendly agenda.
- Chile is known for its market-oriented economy, with exports accounting for approximately a third of GDP. As a result, a healthy global economic outlook and rising commodity prices have been supportive of Chile's growth.
- Some of the country's weaknesses include its vulnerability to natural disasters and the cyclical nature of the mining sector. Labor union and environmentalist activities can cause some degree of disruption to business operations.

Political Risk: Low

- Sebastián Piñera, the recently elected center-right president, has set a pro-business agenda and aims to attract foreign direct investments to boost economic growth. He is unlikely to make major changes to the current taxation system.
- The judiciary is independent, transparent, and consolidated. However, legal processes can be inefficient and costly at times. The legal framework is friendly to businesses and upholds intellectual property rights.
- Chile's relations with neighbors have improved in recent years. Disputes are mostly expected to be resolved through diplomacy and economic policies.
- Social unrest poses a moderate risk to political stability. Demonstrations are mostly peaceful, but are likely to escalate if much needed pension and education reforms were to be further delayed.

Financial System Risk: Low

- The Superintendency of Securities and Insurance is the insurance supervisory authority.
- The financial sector is generally healthy, with the exception of rising public debt, which has reached a quarter of GDP, and the elevated current account deficit.
- The economy's dependence on copper exports and oil imports makes Chile vulnerable to global shocks, but the country has an economic and social stabilization fund that largely mitigates the risk.
- The International Monetary Fund has recommended that Chile strengthen its resilience by adopting Basel III capital standards and move towards risk-based supervision of insurers.