

BEST'S COUNTRY RISK REPORT

Cook Islands

CRT-3

April 10, 2019

Region: Oceania

[Country Risk Criteria Procedures](#)

[Guide to Best's Country Risk Tiers](#)

- The Country Risk Tier (CRT) reflects AM Best's assessment of three categories of risk: Economic, Political, and Financial System Risk.
- Cook Islands has a moderate level of political and economic risk, and a high level of financial system risk.
- The country's relative remoteness, declining population, narrow economic base, and susceptibility to climate-related events present challenges to its long-term economic growth.
- Cook Islands has a free association agreement with New Zealand. This close relationship helps support Cook Islands' tourism sector as the majority of tourists come from New Zealand. Tourism is expected to remain the main driver of the economy. Growth is expected to be around 3% in 2019, with inflation under 1%.



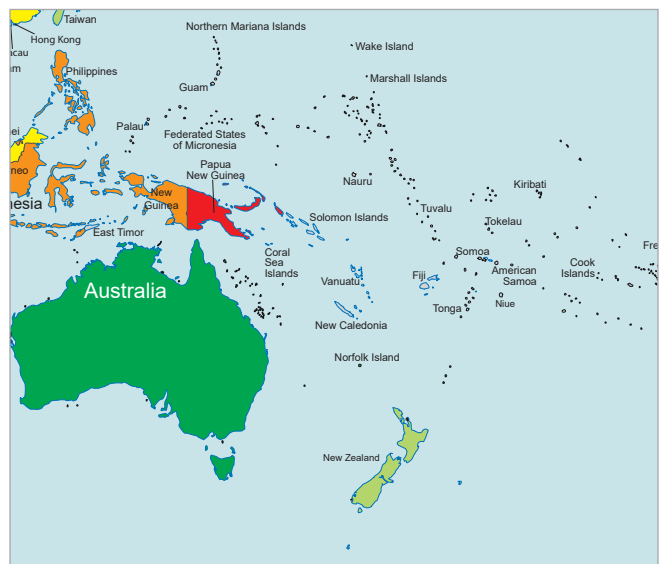
- Country Risk Tier 1 (CRT-1)** Very Low Level of Country Risk
- Country Risk Tier 2 (CRT-2)** Low Level of Country Risk
- Country Risk Tier 3 (CRT-3)** Moderate Level of Country Risk
- Country Risk Tier 4 (CRT-4)** High Level of Country Risk
- Country Risk Tier 5 (CRT-5)** Very High Level of Country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

Regional Summary: Oceania

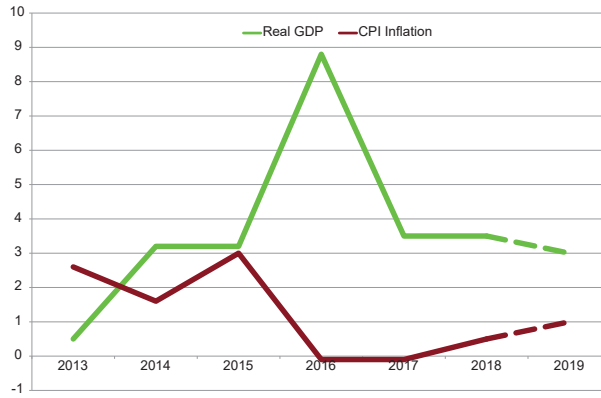
- Australia and New Zealand, the two largest nations in the South Pacific Ocean, account for the vast majority of the region's economic activity. Both have strong political and cultural ties with the United Kingdom, enjoy high living standards, and benefit from an educated workforce.
- The region's unemployment rate has declined, which has helped bolster domestic demand and spending slightly, but wage growth remains sluggish.
- Challenges include the potential for natural disasters, dependence on commodity sectors that increase its exposure to external, global conditions and price shocks, housing affordability, and low levels of foreign direct investment outside the mining sector.
- The region has significant amounts of mineral resources, sound infrastructure, transparent tax and legal systems, and stable governments. It is also geographically positioned to capitalize on its export potential with Southeast Asia. Both Australia and New Zealand are participating in the Trans-Pacific Partnership Agreement.

Vital Statistics 2018		
Nominal GDP	USD bn	0.29
Population	mil	0.02
GDP Per Capita	USD	16,698
Real GDP Growth	%	3.5
Inflation Rate	%	0.5
United Nations Estimates		
Literacy Rate	%	n.a.
Urbanization	%	75.1
Dependency Ratio	%	n.a.
Life Expectancy	Years	76.2
Median Age	Years	37.2
Insurance Statistics		
Insurance Regulator	Financial Supervisory Commission	
Premiums Written (Life)	USD mil	n.a.
Premiums Written (Non-Life)	USD mil	n.a.
Premiums Growth (2016 - 2017)	%	n.a.
Regional Comparison		
	Country Risk Tier	
Cook Islands	CRT-3	
Micronesia	CRT-5	
Papua New Guinea	CRT-5	
Vietnam	CRT-4	
Indonesia	CRT-4	
New Zealand	CRT-2	

Source: UN, Asian Development Bank, CIA and AM Best



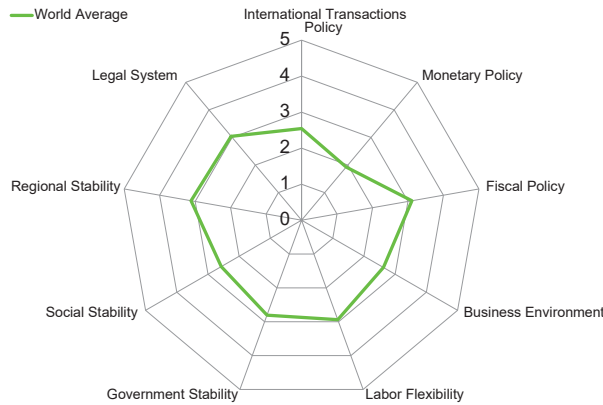
Economic Growth (%)



Source: Asian Development Bank and AM Best

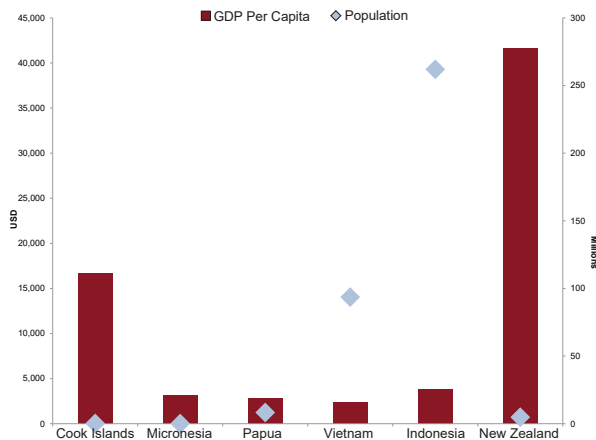
Political Risk Summary

Score 1 (best) to 5 (worst)



Source: AM Best

GDP Per Capita and Population



Source: IMF, Asian Development Bank and AM Best

Economic Risk: Moderate

- The Cook Islands' economy is largely based on tourism, which is approximately 60% of GDP. The sector is constrained by a lack of infrastructure and subject to disruption by natural catastrophes. After tourism, the country's primary industries are offshore banking, fishing, and agriculture.
- Through its free association with New Zealand, Cook Islanders receive New Zealand citizenship. A long-term threat to Cook Islands' economic stability is its significant and continuing population decline as Cook Islanders leave for expanded opportunities in New Zealand. A shortage of skilled labor weighs on the country's economic growth.
- The country receives assistance from various donor agencies and countries. In conjunction with these entities, Cook Islands has sought to reduce its dependence on imported fossil fuels and transition to renewables. This conversion would free the country from the volatility and expenses associated with the import of diesel, which Cook Islands was using to generate electricity. The country plans to use 100 percent renewable energy by 2020.
- Cook Islands has a relatively high GDP per capita; however, income levels are disproportionately skewed toward people on Rarotonga, the largest of the 15 Cook Islands. The decision on whether the country should be classified as a developed nation by the OECD was delayed until 2019.

Political Risk: Moderate

- Cook Islands sporadically entertains discussions on seeking UN membership. UN membership has the potential to upset the country's current relationship with New Zealand and could result in the loss of New Zealand citizenship for Cook Islanders.
- Incumbent Prime Minister Henry Puma retained his seat in 2018 elections, but the hung parliament was not resolved until 2019. With only 24 members, a parliamentary majority is often determined by 1 member.
- The government has low debt levels at almost 20% of GDP.
- Cook Islands is at low risk for security concerns, both externally and internally.

Financial System Risk: High

- By the Insurance Act of 2008 the Financial Supervisory Commission of the Cook Islands is responsible for regulating the insurance industry.
- As an offshore financial center, the country has taken substantial steps to mitigate its exposure to money laundering/terrorism financing activities.
- The availability of reliable and prompt statistics on Cook Islands remains a challenge. The first IMF review of Cook Islands' accounts is scheduled to occur in 2019.
- The country has limited monetary flexibility due to its use of the New Zealand dollar and lack of a central bank.