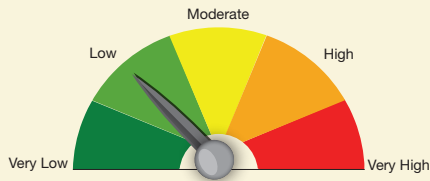


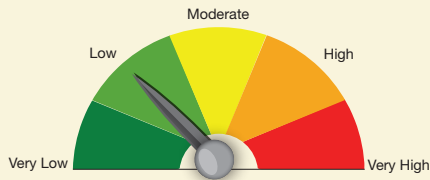
## Country Risk Tier

CRT-2

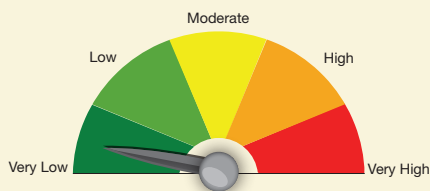
### Economic Risk



### Political Risk



### Financial System Risk



[For information on companies followed](#)

[Market Outlooks](#)

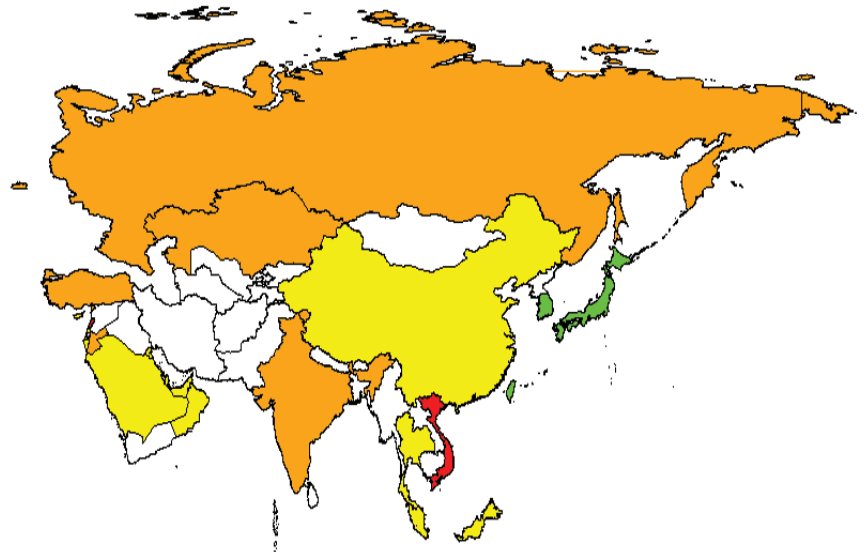
# Hong Kong

- The Country Risk Tier (CRT) reflects A.M. Best’s assessment of three categories of risk: Economic, Political and Financial System Risk.

- Hong Kong, a CRT-2 country and a regional financial services center, has a low risk profile as it is home to a stable government and relatively wealthy population.

- Global economic slowdown has resulted in a sharp economic contraction for Hong Kong, whose services sector relies upon external economic activity.

- The majority of countries pictured below are categorized as CRT-3 or CRT-4. The exceptions would be Japan and South Korea on the high end and, conversely, Vietnam as the sole CRT-5. The countries pictured here represent a great deal of the world’s economic potential. Three of the four BRIC countries (Brazil, Russia, India, China) are represented.



CRT 1 2 3 4 5



## Regional Summary: 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.

## Economic Risk: Low

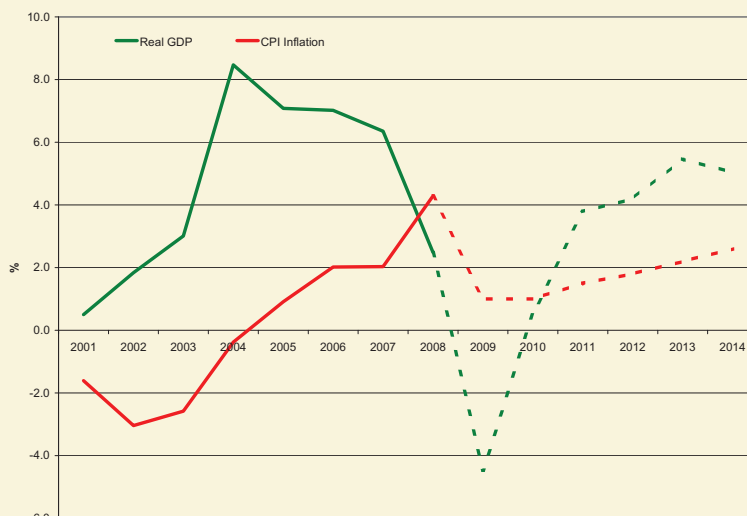
- Hong Kong is a global financial center, due in part to its favorable location for foreign companies doing business with mainland China and other Asian locations, its openness to capital flows, stable society and effective and transparent legal system.
- Hong Kong’s economic performance is heavily dependent upon that of China, which is, among other things, its main export market.
- Largely dependent upon external demand conditions, Hong Kong’s GDP growth has contracted sharply in 2009, though recovery is expected in 2010.

Vital Statistics 2008		
Nominal GDP	USD bn	215.56
Population	mil	7.0
GDP Per Capita	USD	30,755
Real GDP Growth	%	2.5
Inflation Rate	%	4.3
Premiums Written (Life)	USD mil	21,324
Premiums Written (Non-Life)	USD mil	2,772
Premiums Growth (07-08)	%	-2.3

Regional Comparison	
	Country Risk Tier
Hong Kong	CRT-2
Taiwan	CRT-2
China	CRT-3
Macau	CRT-2
South Korea	CRT-2
Japan	CRT-2

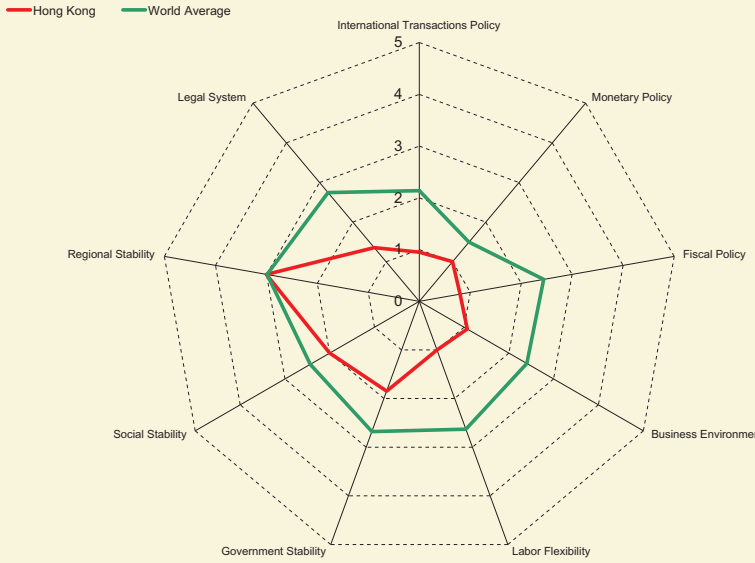
Source: IMF, Swiss Re and A.M. Best



Source: IMF World Economic Outlook (10/08) and A.M. Best

### Political Risk Summary

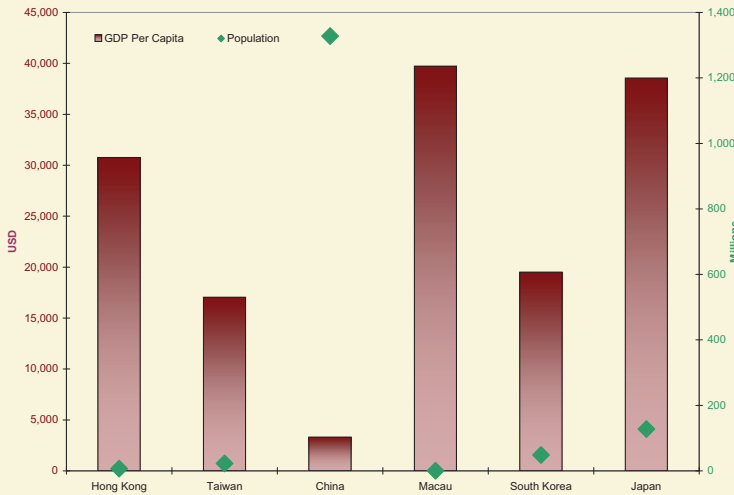
Score 1 (best) to 5 (worst)



Source: A.M. Best

### Political Risk: Low

- Though a Special Administrative Region (SAR) of China, Hong Kong’s private sector is supported by an open economy with flexible labor and product markets and efficient regulatory regime.
- Mainland China has worked to portray a “hands-off” attitude in Hong Kong but can intervene in areas of national importance.
- Hong Kong’s currency is pegged to the US dollar. This creates a complicated situation for monetary policy in Hong Kong, particularly when economic performance diverges from that in Mainland China.



Source: IMF and A.M. Best

### Financial System Risk: Very Low

- The main insurance regulatory body in Hong Kong is the Office of the Commissioner of Insurance (OCI).
- Hong Kong’s financial and economic regulations are clear, efficient and equitable for both foreign and local investors.

## GUIDE TO BEST'S 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 Best's Credit Ratings. Countries are placed into one of five tiers, ranging from "CRT-1" (Country Risk Tier 1), denoting 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. These "scores" are: (1) Very Low; (2) Low; (3) Moderate; (4) High and (5) Very High.

Category of Risk	Definition
Economic Risk	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.
Political Risk	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 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 due to inadequate reporting standards, weak banking system or asset markets and/or poor regulatory structure. Along with the risk that the insurance industry's level of development and public awareness, transparent and effective regulation and reporting standards and sophisticated regulatory body will contribute to a volatile financial system and compromise the ability of an insurer 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 displays scores for nine different aspects of political risk scored on a scale of 1-5 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 the company's 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, an insurer or other rated issuer, nor do they address the suitability of any particular policy, contract or other financial obligation for a specific purpose or purchaser.

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