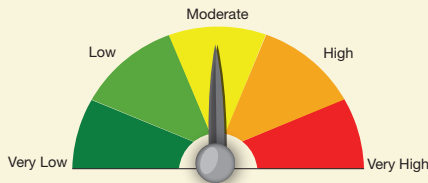


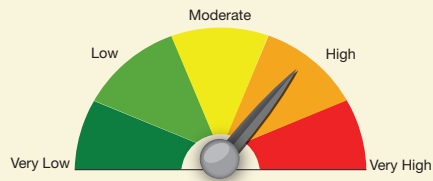
## Country Risk Tier

CRT-4

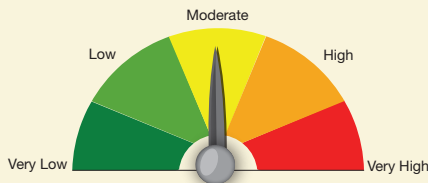
### Economic Risk



### Political Risk



### Financial System Risk



[For information on companies followed](#)

[Market Outlooks](#)

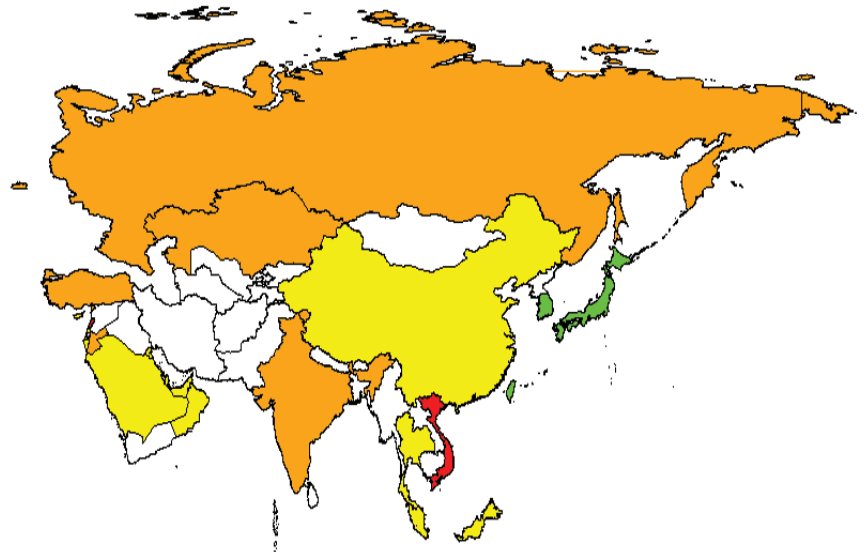
# India

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

- India, a CRT-4 country, has great economic potential due to its large labor force. Growth has been strong, averaging nearly 9% over the five years to 2008. But, largely due to declines in investment and domestic demand, growth has decelerated and will be less than 6% in 2009/10.

- Poverty reduction in India is heavily reliant upon high levels of economic growth, which is likely to return in 2010/11.

- A.M. Best considers the majority of countries pictured below to be categorized as CRT-3 and 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: 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.

### Economic Risk: Moderate

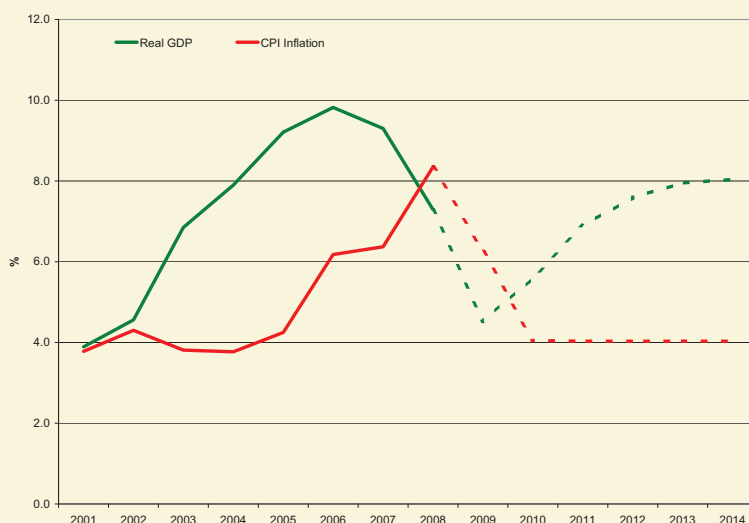
- India, with a massive population exceeding one billion, is home to the world's 12th largest economy as measured by gross domestic product (GDP).
- India's information technology sector and business services sector have been drivers of growth as the government has supported development with improvements in infrastructure and regulation.
- GDP growth has been financed largely by private saving and foreign capital inflows. The level of economic growth in 2009 will decline significantly due to global economic conditions but a rebound is expected in 2010. Thus, the long term growth trend will continue to be above 7%.
- A notable point of weakness for the Indian economy is the worsening government budget balance. The deficit will likely reach -7.0% of GDP in 2008/09.

Vital Statistics 2008		
Nominal GDP	USD bn	1209.7
Population	mil	1190.5
GDP Per Capita	USD	1,016
Real GDP Growth	%	7.3
Inflation Rate	%	8.4
Premiums Written (Life)	USD mil	48,860
Premiums Written (Non-Life)	USD mil	7,329
Premiums Growth (07-08)	%	-2.8

Regional Comparison	
	Country Risk Tier
India	CRT-4
Indonesia	CRT-4
Russia	CRT-4
China	CRT-3
Thailand	CRT-3
Kazakhstan	CRT-4

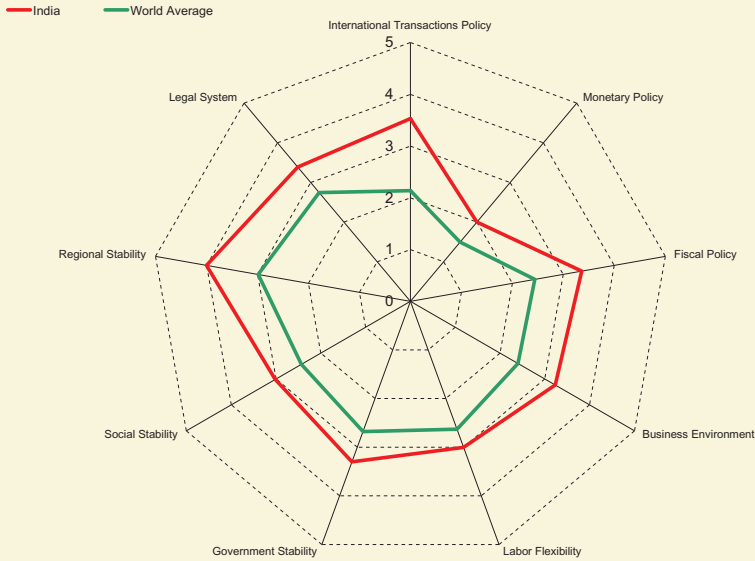
Source: IMF, Swiss Re and A.M. Best



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

### Political Risk Summary

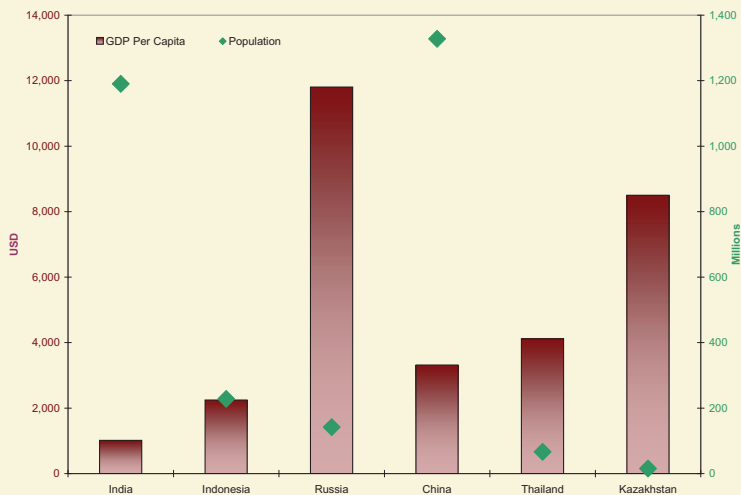
Score 1 (best) to 5 (worst)



Source: A.M. Best

### Political Risk: High

- Income disparity in India is significant, as approximately one third of the population lives in poverty.
- National security has become a focus in India as some of the major cities have been the scene of terrorist bombings.
- The bilateral relationship with Pakistan is strained, and receives world-wide attention. Efforts in recent years to make reparations have been interrupted repeatedly by acts of violence.



Source: IMF and A.M. Best

### Financial System Risk: Moderate

- The insurance industry is regulated by the Insurance Regulatory and Development Authority (IRDA).
- The Indian government is working to align its regulatory and accounting standards with international best practices.
- The Indian financial system has fared relatively well during the global financial crisis.

## 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 erupts 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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