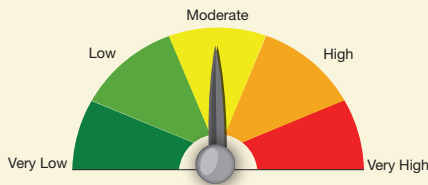


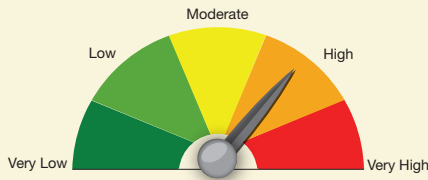
## Country Risk Tier

CRT-4

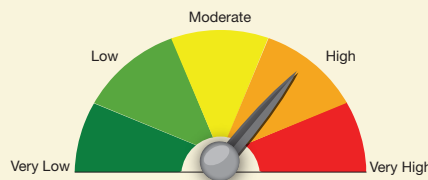
### Economic Risk



### Political Risk



### Financial System Risk



[For information on companies followed](#)

[Market Outlooks](#)

# Indonesia

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

- Indonesia has high levels of political and financial system risk. A.M. Best considers the majority of countries in Southeast Asia to be categorized as CRT-3 or CRT-4. The exceptions are Vietnam, the sole CRT-5, and Singapore the sole CRT-1.

- As global demand has slowed and prices for Indonesia’s commodity exports have fallen, Indonesia’s economic growth will slow in 2009 and 2010 from the 6 plus percent growth it experienced in 2007 and 2008.

- However, benefiting from strong initial conditions and strong policy responses, the Indonesian economy has withstood well the recent economic turmoil. The strength of the economy comes in large part from its greater dependence on domestic consumption rather than exports, unlike many of its regional peers.



### Regional Summary: Southeast Asia

• Southeast Asia is a critical part of the world trading system and while the region’s economies remain somewhat dependent on agriculture, manufacturing and services have been the engine for growth.

• 2009-2010 are forecasted to be very difficult times for the region. In fact forecasts suggest these should be the worst years since the Asian financial crisis in 1997-1998. With the economies of their large trading partners slowing significantly (notably U.S. and Europe) demand for exports is plummeting and leading to economic contraction across the region. At the same time as global credit tightens, the amount of foreign direct investment flowing into the economies is drying up.

### Economic Risk: Moderate

• Indonesia has a population of around 230 million people, making it the fourth most populous state in the world.

• Indonesia’s economy is well balanced, incorporating manufacturing, services and agriculture.

• The country has a significant export sector that sells commodities such as oil, gas and nickel as well as textiles and garments, wood and wood products.

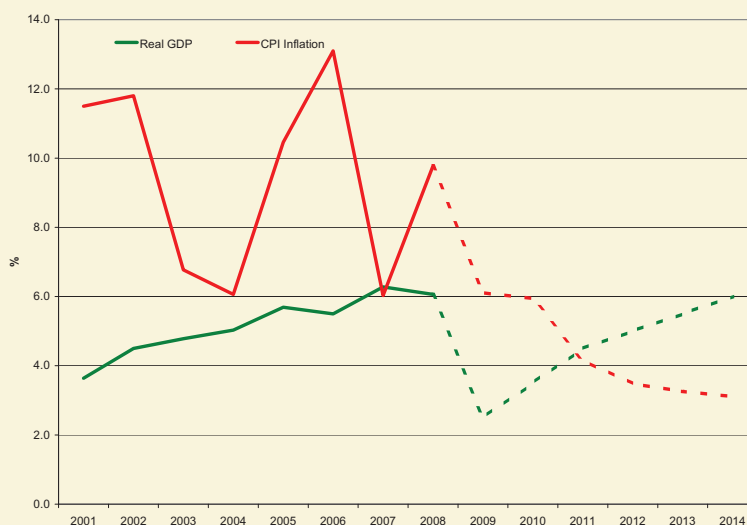
• Indonesia’s most important trading partner is Japan followed by the U.S., Singapore and South Korea.

Vital Statistics 2008		
Nominal GDP	USD bn	511.77
Population	mil	227.8
GDP Per Capita	USD	2,246
Real GDP Growth	%	6.1
Inflation Rate	%	9.8
Premiums Written (Life)	USD mil	4,704
Premiums Written (Non-Life)	USD mil	2,199
Premiums Growth (07-08)	%	-0.5

Regional Comparison	
	Country Risk Tier
Indonesia	CRT-4
Philippines	CRT-4
Malaysia	CRT-3
Singapore	CRT-1
Thailand	CRT-3
Vietnam	CRT-5

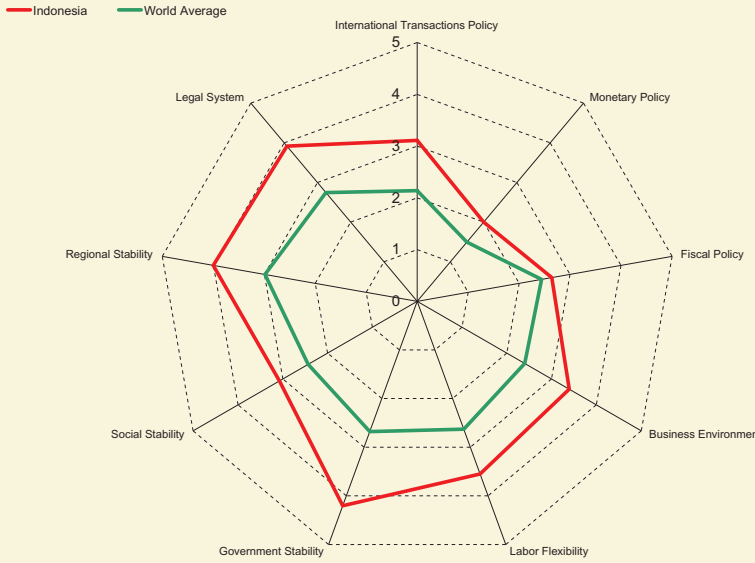
Source: IMF, Swiss Re and A.M. Best



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

### Political Risk Summary

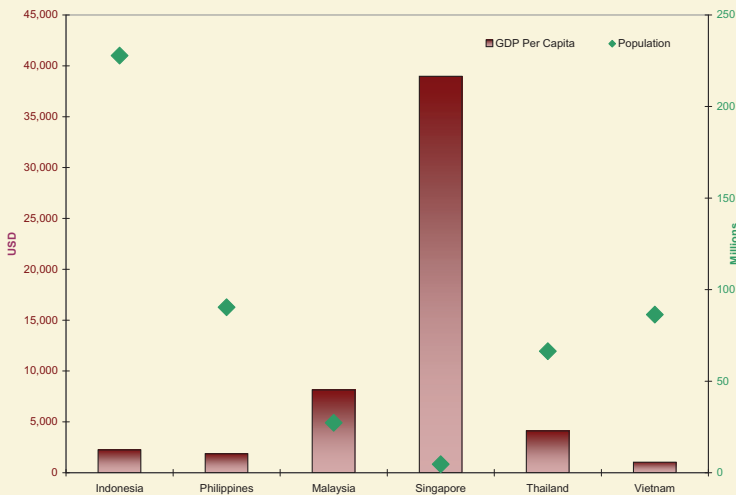
Score 1 (best) to 5 (worst)



Source: A.M. Best

### Political Risk: High

- Indonesia was a member of OPEC and an exporter of oil until 2004 when it became a net oil importer.
- In 2008 Indonesia withdrew from OPEC but is open to rejoining if/when it returns to being an oil exporter.
- The combination of social and political instability, coupled with natural disasters, has limited the amount of capital investment being undertaken in Indonesia.



Source: IMF and A.M. Best

### Financial System Risk: High

- The Indonesian insurance industry is regulated by the Ministry of Finance.
- Ever since the Asian financial crisis of 1997-98, the Indonesian government has been working to strengthen financial sector regulation and move into compliance with international standards. However, progress towards compliance has been slow.

## 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.

Financial Strength Ratings are distributed via press release and/or the A.M. Best Web site at [www.ambest.com](http://www.ambest.com) and are published in the *Rating Actions* section of *BestWeek*®. Financial Strength Ratings are proprietary and may not be reproduced without permission.  
Copyright © 2009 by A.M. Best Company, Inc. Version 070208

