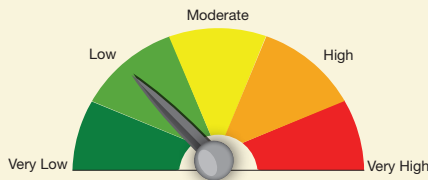


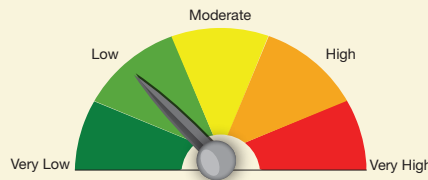
Country Risk Tier

CRT-2

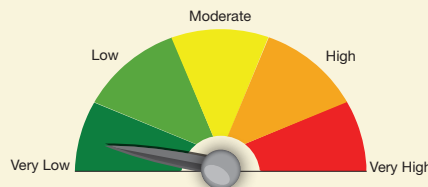
Economic Risk



Political Risk



Financial System Risk

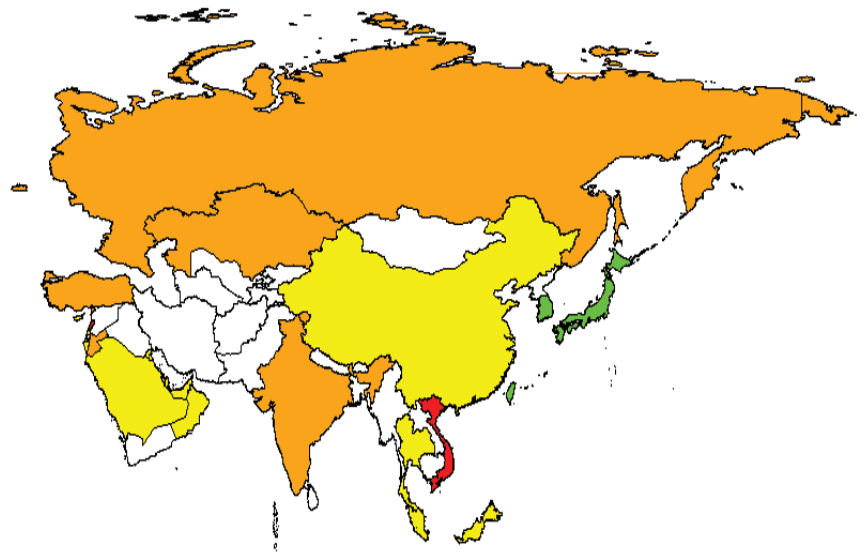


[For information on companies followed](#)

[Market Outlooks](#)

Japan

- The Country Risk Tier (CRT) reflects A.M. Best’s assessment of three categories of risk: Economic, Political and Financial System Risk.
- Japan, a CRT-2 country, is home to the world’s second largest economy. Industries dominant in Japan’s export sectors are in the advanced manufacturing industries, which made it highly vulnerable to the dramatic fall in global demand that occurred in 2008 and 2009.
- Economic growth in Japan has been sluggish but positive in recent history, buoyed by the investment boom from the first half of this decade. However, growth is expected to plummet by -6% in 2009 reflecting decline in global demand for exports..
- The majority of countries pictured below are categorized as CRT-3 or CRT-4. The exceptions are 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.

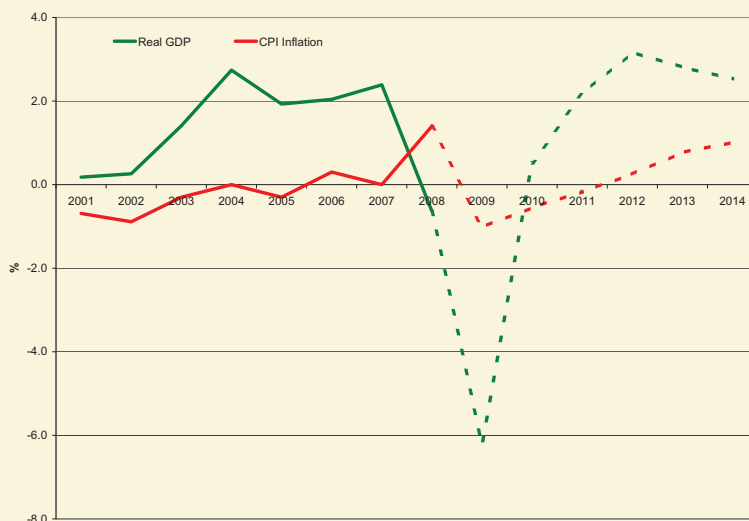
Economic Risk: Low

- Japan, an industrialized and advanced country, is home to the second largest economy in the world behind that of the United States.
- Gross domestic product (GDP) growth, which had been weak over the past 20 years, will fall sharply in 2009 as domestic demand and exports contract. The government is responding to the crisis with aggressive expansionary fiscal policies that should result in a return to modest growth in 2010.
- Inflation, however, is expected to remain negative until 2011.

Vital Statistics 2008		
Nominal GDP	USD bn	4923.76
Population	mil	127.7
GDP Per Capita	USD	38,559
Real GDP Growth	%	-0.6
Inflation Rate	%	1.4
Premiums Written (Life)	USD mil	367,112
Premiums Written (Non-Life)	USD mil	106,085
Premiums Growth (07-08)	%	20.4

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

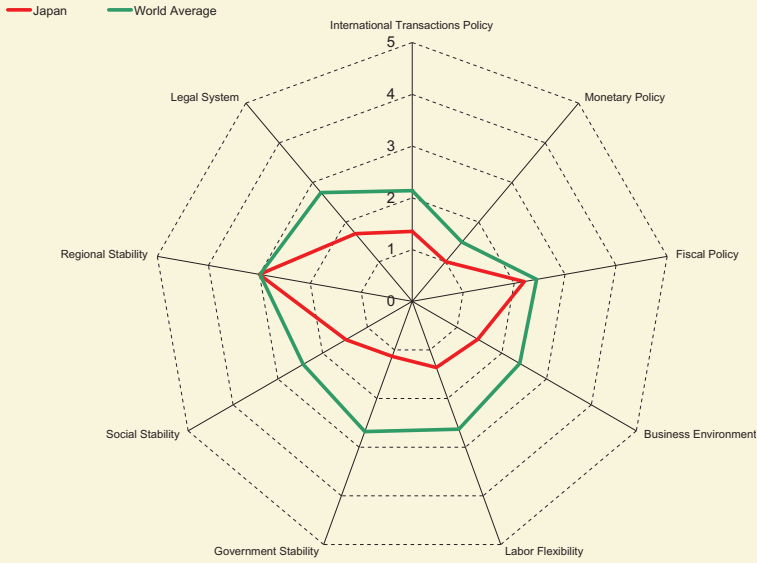
Source: IMF, Swiss Re and A.M. Best



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

Political Risk Summary

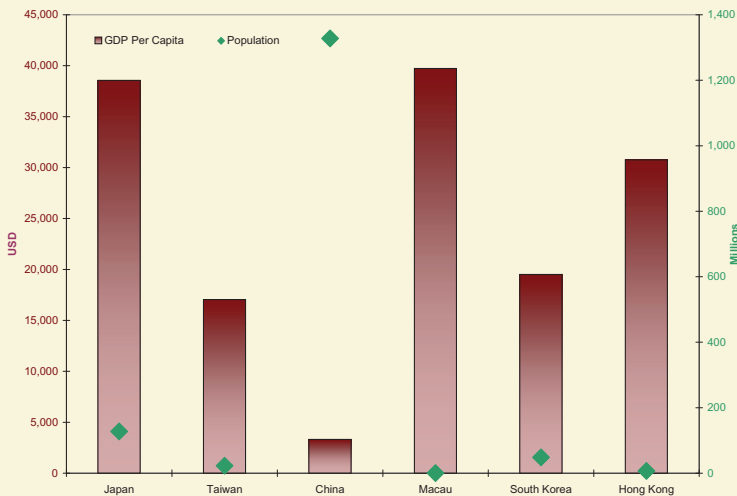
Score 1 (best) to 5 (worst)



Source: A.M. Best

Political Risk: Low

- The Japanese government is democratic and advanced, with a long history of stability. There has been significant turnover in leadership as the populace expressed its dissatisfaction with the state of the economy.
- The legal system is credible and the business infrastructure is efficient, though somewhat closed to foreign participants given the tradition of keiretsu networks.



Source: IMF and A.M. Best

Financial System Risk: Very Low

- Insurance is regulated by the Financial Supervisory Agency (FSA).
- The Japanese regulatory authorities have been enacting international standards on banking and securities.
- Tokyo is a global financial center. The Japanese currency has shown considerable strength during this time of global financial volatility as flight to quality was the trend of 2008 and 2009.

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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